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**FEDERAL CROP INSURANCE
REFORM ACT OF 1994**

P204-26

HEARING
BEFORE THE
SUBCOMMITTEE ON
RISK MANAGEMENT AND SPECIALTY CROPS
OF THE
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTH CONGRESS

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FEDERAL CROP INSURANCE REFORM ACT OF 1994

TUESDAY, MARCH 28, 1995

**HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON RISK MANAGEMENT
AND SPECIALTY CROPS,
COMMITTEE ON AGRICULTURE,
*Washington, DC.***

The subcommittee met, pursuant to notice, at 2:02 p.m., in room 1300, Longworth House Office Building, Hon. Thomas W. Ewing (chairman of the subcommittee) presiding.

Present: Representatives Combest, Doolittle, Everett, Lewis, Bryant, Foley, Chambliss, Baesler, Thurman, Farr, and Pastor.

Also present: Representatives Roberts, Smith, de la Garza, Peterson, and Pomeroy.

Staff Present: Dale Moore, Dave Ebersole, John Riley, Stacy Carey, Keith Pitts, Jackie Cottrell, Callista Bisek, and Wanda Worsham.

Mr. EWING. The meeting of the Subcommittee on Risk Management and Specialty Crops will come to order to review the Federal Crop Insurance Reform Act.

I would like to first call on the chairman of the full Agriculture Committee, Mr. Pat Roberts from Kansas. The gentleman from Kansas.

OPENING STATEMENT OF HON. PAT ROBERTS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

The CHAIRMAN. Thank you, Mr. Chairman. I want to say at the outset how much I appreciate your holding this hearing. We are taking a preliminary look at how the new crop insurance program is being implemented, and I want to underscore what the distinguished ranking minority leader and I have really agreed to; that is, during the farm bill we are going to take a hard look at the crop insurance program and see if we can continue the march to make the obvious and needed improvements. So I want to thank you for your leadership, and we will move ahead.

I have a statement here that I would like to make part of the record, and I am going to try to summarize it, if that would be all right with you, Mr. Chairman.

Mr. EWING. Please, go ahead.

The CHAIRMAN. I said last October when this bill passed that the package may not be all that we had hoped for, and I think that was a rather modest disclaimer. I am afraid it has been rather prophetic. I am hopeful that the hearing will highlight the areas

where we might need some legislative action and, more especially, where we can take care of it from the standpoint of some kind of administrative action.

I think without question that as we looked at the legislative agenda as of last year, the completion of the authorizing bill was delayed. There is no question about that. In addition, it has taken more than 100 days from enactment to announce the deadlines for purchasing insurance for spring crops. I am concerned about that. I know that folks at the Department are concerned about that as well.

From the initial consideration of last year's reforms, the essentials of this program change very little, however, and I would hope that the FCIC and the CFSA can be ready and are ready to move on the implementation.

It is the only disaster program that we have now, and we must make it work. Reports I hear from my farmers, quite frankly, are ones of frustration on how the program is being put in place. That is to be understood in regards to some degree with a new program and change. But there is considerable frustration.

One way of dealing with these problems would be to allow the producer to certify that they will waive any right to future disaster assistance in return for not being compelled to buy the catastrophic insurance. This not only would have been helpful, I think, in implementing the changes as of this crop year; it would restore some responsible risk management and some flexibility to the future sign-ups.

I think we should consider changing the Crop Insurance Act to give the producer that option, to help solve the problems and the inequities of farm size and the very complex landlord and tenant kinds of situations.

I think we have too much confusion, and I am using the editorial "we" in regards to the legislation that we had a hand in as well as the administration of the program. As many of us feared, I think the local field offices were not really adequately prepared. That is always difficult to manage that. But adding another job at the local office, it seems to me, was not in the best interests of either the employee or the farmers.

In many cases, the employees who were swamped with crop insurance applicants said they did not have time to read all the forms that farmers are required to fill out. If the people we have who are in charge trying to run the program don't understand it, obviously we are going to have a tough time getting farmers to understand it and feel very comfortable with this new disaster program.

Some of us will remember last year that the ASCS personnel were confident they could administer the catastrophic program with existing resources, but yet \$10 million was included in the recent supplemental appropriation bill to assist in this effort. I think the question must be asked: Does the CFSA need to really administer this program in every local office, or should they be involved only in parts of the country where there are inadequate private insurance company sales agents? I think that is a question that we have to explore.

The program fee structure is expensive, and in some cases actually counterproductive, actually a little senseless. Requiring both the tenant and the landlord to pony up the \$50 per crop per county fee in order to retain the deficiency payment eligibility is just not working in some areas in the real world.

In Kansas, we have a case where a tenant farms 40 acres for 9 retired persons who each receive a separate deficiency payment check. This ground has a triple-crop base and rests in 2 counties. Fifty dollars per crop times 3 crops in 2 counties times the 10 program participants comes out to \$3,000 in catastrophic fees. That is a damn catastrophic problem.

This makes absolutely no sense. It was not intended. These kinds of examples, although not so drastic as the one I just mentioned, are too often very commonplace.

I understand the need to bring as many producers into the program as possible, but I am afraid the fee structure has all but proscribed this linkage in regards to the future. So we are going to have to re-examine the fee structure, Mr. Chairman.

Aside from these delivery problems, I still think the program is too complex. I know we labeled last year's bill as reform. It focused on the delivery and on stopping the costly cycle of ad hoc disaster legislation. Unfortunately, I think this product is just too complicated. The insurance providers continue to be regulated at the front end instead of being subject to performance audits on a periodic basis. I think we need to take another look at the FCIC's regulatory structure. The reform package called for FCIC to decrease the paperwork, and yet many farmers and insurance companies have not experienced any reduction.

As a matter of fact, just at the time we were passing a lot of legislation in that session of Congress in regards to unfunded mandates, risk assessment, sound science, and all of the rest, farm country was being hit with paperwork requirements.

Mr. Chairman, while the Congress did ask the Department to take on a big job when it passed the crop insurance bill last year, it was the Department's bill, they indicated that they were prepared to carry it out, as we were on the legislative end. So I am very hopeful that as we proceed with the reviews of the Federal Crop Insurance Programs, we can make a mutual effort to really iron out all these problems and to give the producers a risk management product they will find both efficient and beneficial.

I would also note, Mr. Chairman, that the recent flooding in California is going to give us a first look at the effectiveness and the efficiency of the non-insured program. I deeply regret that this disaster had to happen in order to give us a first-blush test, and I am very hopeful that we can be of real help to those folks. It is going to be a real test, as I have indicated.

Thank you, Mr. Chairman, for your leadership on this review. I look forward to reviewing your recommendations, more especially, as we continue working on the farm bill. I don't want to be overly critical; however, if you go back to your individual districts now and you talk to the individual producer and you sit on the wagon tongue and you listen to him and you bring up this subject—as a matter of fact, you don't have to bring it up; he will bring it up—in regard to crop insurance, the sentences are a little short and

jerky and the adjectives and adverbs are much wilder than I have used today.

So I am going to look forward to working with Ken and with Grant and others in the Department to see if we can't take a few more steps to improve the crop insurance program.

I thank my colleagues for their indulgence, and I thank you, Mr. Chairman.

[The prepared statement of Chairman Roberts follows:]

Statement of
the Honorable Pat Roberts, M.C.
before the
Subcommittee on Risk Management and Specialty Crops
Committee on Agriculture
March 28, 1995

Mr. Chairman, I appreciate your holding this hearing to take a preliminary look at how the new crop insurance program is being implemented.

I noted last October following passage of H.R. 4217, that "...the [crop insurance reform] package may not be all we had hoped for". While that modest disclaimer has proven to be prophetic relative to certain details of the programs and their implementation, I am hopeful today's hearing will highlight those areas where legislative action is needed, versus those problems that can be solved through the appropriate administrative action. While part of the blame can be laid on Capitol Hill, where delayed completion of the authorizing bill led to delayed implementation, I am concerned that it took more than 100 days from enactment to announce the deadlines for purchasing insurance for spring crops. From the initial consideration of last year's reforms, the essentials of this program changed very little, and it would seem that FCIC and CFSA should have been ready to move on implementation quickly after enactment. However, it's the only disaster program farmers now have. We must make it work. And, the reports I hear from my farmers are ones of frustration over how the program is being put in place in farm country.

As we discussed last year, one way of dealing with these problems is to allow producers to certify they will waive any right to future disaster assistance in return for not being compelled to buy catastrophic insurance. This not only would have been helpful in implementing the changes this crop year, it would restore responsible risk management and flexibility to future signups. We should consider changing the crop insurance act to give producers that option to help solve the inequities of farm size and complex landlord-tenant situations.

The program seems to be needlessly confusing. As many of us feared, local USDA field offices were not adequately prepared for the program. Adding yet another job at the CFSA local office was not in the best interests of either the USDA employee or farmers. In many cases, CFSA employees who were swamped with crop insurance applicants said they did not have time to read all of the forms that farmers are required to fill out. If the people we have running the program do not understand it, how can we expect farmers to understand and feel comfortable with this important new disaster program.

-2-

Some of us will remember last year that ASCS personnel were confident they could administer the catastrophic program with existing resources. But yet, \$10 million was included in the recent supplemental appropriations bill to assist CFSA in administering this program. Does the CFSA need to administer this program in every local office or should the CFSA be involved only in those parts of the country where there are inadequate private insurance company sales agents?

The program fee structure is expensive -- not to mention senseless -- to producers. Requiring both tenant and landlord to pony up the \$50 per crop per county fee in order to retain deficiency payment eligibility is just not working in the real world. In just one example in Kansas, a tenant farms 40 acres for nine retired persons who each receive a separate deficiency payment check. This tract has a triple-crop base and rests in two counties. Fifty dollars per crop times three crops in two counties times 10 program participants comes out to \$3,000 in catastrophic fees. This makes absolutely no sense and was not intended. These kinds of examples, although not so drastic as the one I just mentioned, are common.

I understand the need to bring as many producers into the program as possible, but I'm afraid the fee structure has all but proscribed this linkage for the future. The fee structure needs to be re-examined.

Aside from these delivery problems, crop insurance still is too complex. While last year's bill was labeled reform legislation, it focused on delivery and on stopping the costly cycle of ad hoc disaster legislation. The product is just as complicated. Insurance providers continue to be regulated at the front end instead of being subject to performance audits on a periodic basis. We need to take another look at the FCIC's regulatory structure. The reform package called for FCIC to decrease paperwork, yet farmers and insurance companies have not experienced any reduction in paperwork.

Mr. Chairman: While Congress did ask the Department to take on a big job when it passed the crop insurance bill last year, it was the Department's bill, and passed with substantial input from them. They indicated they were prepared to carry it out. I hope as we proceed with reviews of federal crop insurance programs, we can iron out all these problems and give producers a risk management product they will find beneficial and efficient to use.

I would also note, Mr. Chairman, that the recent flooding in California will give us a first look at the effectiveness and efficiency of the noninsured program. Thank you, Mr. Chairman, for your leadership on this review. We all look forward to reviewing your recommendations.

Mr. EWING. Thank you, Chairman. It was good of you to be here to participate in this important hearing.

Mr. de la Garza, the ranking member, would you have a comment for us?

OPENING STATEMENT OF HON. E (KIKI) DE LA GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. DE LA GARZA. Thank you, Mr. Chairman.

I basically echo the words of the distinguished chairman. What he says you can take to any corner of the country and it basically applies.

I appreciate your having this oversight, and I do hope that we continue to have constant oversight between now and the farm bill to see what can be done and we can make it better.

In my area, though, I must tell you, Mr. Ackerman, that I am given credit for having saved the citrus industry. Actually, it was your tree insurance that did it. This is one positive that we can see where it works at the time it is needed and can be very effective.

Listening to the chairman, though, it ran through my mind, why don't we just block grant it and give it back to the States? [Laughter.]

Thank you, Mr. Chairman.

[The prepared statement of Mr. de la Garza follows:]

STATEMENT OF REPRESENTATIVE E (KIKI) DE LA GARZA FOR THE PUBLIC HEARING OF THE HOUSE AGRICULTURE SUBCOMMITTEE ON RISK MANAGEMENT AND SPECIALTY CROPS TO REVIEW THE FEDERAL CROP INSURANCE REFORM ACT OF 1994

Mr. Chairman, I commend the Subcommittee for holding this hearing to assess the progress of the Department of Agriculture in implementing the Federal Crop Insurance Reform Act of 1994.

The Consolidated Farm Services Agency has made admirable progress in implementing the reforms contained in the Act under a very restrictive time constraint. Complicating their task is the fact that the Department is undergoing a comprehensive reorganization at the same time. The job faced by the CFSA is a large one: Crop insurance policies written are expected to more than double in the 1995 planting season compared to sales of a year ago. In addition, many changes must be made in the terms and conditions contained in the basic policies as a result of the 1994 Act.

Today's hearing provides us with an important opportunity to learn about the progress and the problems associated with crop insurance reform. I look forward to continuing to work with the Committee, with the Department, and with the farm community to ensure that the program meets the risk management needs of American agriculture.

The CHAIRMAN. If the chairman would yield? We tried that in 1978, and my predecessor cast the deciding vote. I am not sure we can go—we could have that vote again. But perhaps it would be a little late.

Mr. EWING. Thank you to both the chairman and the ranking member.

OPENING STATEMENT OF HON. THOMAS W. EWING, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. EWING. I am pleased to convene today's hearing to review the Federal Crop Insurance Act of 1994. Improving the Federal Crop Insurance Program has been a personal goal since coming to Congress. I believe we achieved many of our reform goals through

the 1994 legislation, which established an excellent foundation to build an adequate insurance safety net for producers.

While we are only in the first year of implementation, the subcommittee is interested in reviewing the process thus far, and we plan to continue oversight of the program throughout the session.

As with any undertaking, this large crop insurance reform is not without problems and glitches. I commend, though, the Department for its flexibility in addressing problematic issues such as the power of attorney filing, the acceptance of late applications for catastrophic crop insurance coverage.

We encourage the continuation of the responsiveness as the implementation process unfolds. In addition to reviewing the implementation of the CAT coverage, the subcommittee hopes to focus on the Non-insured Assistance Program available for specialty crops. The devastation of many non-insured crops in the California floods will, unfortunately, be the first test of whether the NAP program works and if it is responsive to the needs of specialty crop producers.

I would like to thank all of you who are on today's panels for joining us this afternoon. We appreciate your time and effort and look forward to receiving your testimony.

Let me say, as far as our procedure today, that we will continue to operate under what I call the 5-minute rule. We ask your indulgence in submitting your statements for the record. We would ask that each of you summarize your comments in 5 minutes or less so that we can reserve for the members the maximum amount of time for questions.

The Chair would also ask the indulgence of the members, if they have opening statements, in the interest of preserving time, to submit them for the record.

[The prepared statements of Mr. Bishop, Mr. Everett, and Mr. Pomeroy follow:]

**Statement of Sanford D. Bishop, Jr.
Subcommittee on Risk Management and Specialty Crops
March 28, 1995
Washington, DC**

Mr. Chairman, the crop insurance reform program that we passed in this committee and on the floor of the House last year is structured to provide catastrophic coverage for farmers while strongly encouraging farmers to buy additional federally subsidized crop insurance from private agents. The farmer is encouraged to purchase a level of protection that he needs to stay in business in case of a crop failure. If disaster does strike, this approach is far more preferable to the traditional combination of insurance policies and disaster bailouts.

The goal of our legislation is to make government-funded crop disaster assistance work better. Our crop insurance reform will establish a more efficient, affordable and predictable risk management program for farmers. By broadening producer participation in the crop insurance program, we hope to lessen the need for future Congresses to consider recurring and costly crop disaster funding requests. Crop insurance reform will help keep farmer in business when the weather doesn't cooperate, and that means it helps consumers by ensuring an adequate and affordable food supply in the years to come.

I am anxious to hear from the witnesses today to find out how our legislation is being implemented and how we might help the process along. Thank you Mr. Chairman, for providing this oversight opportunity.

Congressman Terry Everett (2-AL)

**Statement
before the**

**House Agriculture Committee
Subcommittee on Risk Management and Specialty Crops**

March 28, 1995

Mr. Chairman, let me first thank you for holding this hearing today, and also for the subsequent hearings to follow with regard to the Crop Insurance Reform Act. As we all know, today's testimony will be extremely beneficial to those of us who debated this issue in great detail during the 103rd Congress, while also being helpful to those of you new to the Agriculture Committee and this issue. As crop insurance reform moved through this body and later the House, we knew there would be some necessary adjustments to come down the road, and today's hearing will continue to point us in that direction.

Mr. Chairman, I want to take this opportunity to welcome each of the panelists today, and I would also like to extend my appreciation to each and everyone here today who has given their time and attention to this important legislation. As we continue to consider this issue, your experience and diligence will further serve to ensure the viability of our agricultural community, and most importantly, the American farmer.

I welcome you and I look forward to your comments.

Also, Mr. Chairman, on behalf of Steven Tate, an Alabama cotton farmer and owner of Steve Tate Insurance, I ask that his testimony be submitted for the record in today's proceedings.

Opening Statement

**Congressman Earl Pomeroy
Subcommittee on Risk Management and Specialty Crops
March 28, 1995**

Mr. Chairman, I look forward to today's hearing to learn more about the reaction of the key players in this debate -- commodity groups, farm organizations, the Department of Agriculture, and providers of insurance -- concerning the Administration's implementation of the Federal Crop Insurance Reform Act of 1994.

This issue is of enormous importance to my state.

- North Dakota ranks first in participation in the nation -- measured by base acres enrolled -- for most commodities grown in the state.
- North Dakota producers have positive and productive relationships with insurance agents and the Consolidated Farm Service Agency.

In the past, the private-public sector partnership for crop insurance has been attractive to producers and has worked well for them. It is important that we nurture and improve the relationship during the implementation of the Reform Act.

Mr. Chairman, in the 103rd session I supported the Federal Crop Insurance Reform Act of 1994. I firmly believe that Congress did the right thing -- in terms of accountability to taxpayers, of strengthening the system for producers, and of trying to move toward a system where each producer has more control over his or her individual risk. However, as implementation moves forward, we must guarantee that the system is user friendly and that producers are able to make an accurate decision on assessing their risk.

I look forward to the testimony today.

Mr. EWING. I would now like to call the first panel to the table, and I am glad to see that they are already seated at the table: Mr. Grant Buntrock, Acting Administrator for the Consolidated Farm Service Agency, U.S. Department of Agriculture; Mr. Kenneth Ackerman, Acting Deputy Administrator, Office of Risk Management. And I think we have Mr. Stencel with Mr. Ackerman and Mr. Newman with Mr. Buntrock. We will start with you, sir.

STATEMENT OF GRANT B. BUNTROCK, ACTING ADMINISTRATOR, CONSOLIDATED FARM SERVICE AGENCY, DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY RICHARD O. NEWMAN, ACTING DEPUTY ADMINISTRATOR FOR FARM PROGRAMS, CFSA

Mr. BUNTROCK. Mr. Chairman, I would like to begin by expressing our appreciation for the opportunity to appear before this subcommittee and members of this subcommittee to give you a bit of an update and kind of state of affairs on the crop insurance reform, as well as to respond to questions that I know all of you have on this very important subject.

Before I begin, though, I would like to just clear up a little bit with this reorganization and so on that we are in, how we are configured here today. We are all a part of the Consolidated Farm Service Agency, and Mr. Newman is the Acting Deputy Administrator for all of the commodity programs; Mr. Ackerman for the risk management; and Mr. Stencel for the delivery of all of those programs. So it is, again and indeed, a pleasure to be here and have the opportunity to meet with you for the first time.

As you know, last October the Congress approved and President Clinton signed into law the Federal Crop Insurance Reform and the Department of Agriculture Reorganization Act of 1994. The reorganization of the USDA, along with the implementation of this new Crop Insurance Reform Program has, indeed, been a very massive undertaking. The CFSA itself is a major product of that reorganization. We have had a busy time, as you indicated, during the past 5 months putting the new crop insurance reforms in place simultaneously with our top-to-bottom review under the reorganization process of this agency.

Ken Ackerman, the CFSA Acting Deputy Administrator, will detail some of the steps that we have taken to implement the new insurance program, and I would just like to very briefly touch on some of the longer-term goals of the Federal crop insurance once we complete this very busy implementation period.

Federal crop insurance, of course, has undergone some very intensive changes over the past several years. Beginning really in the early 1990's, we have undertaken a series of steps to improve the program's financial soundness and its quality of service to farmers. The 1994 act, of course, is the most recent and the most sweeping of these steps that have been taken. Responding to the long-standing needs, we have significantly revised our contractual relationship with private insurance companies, and we have implemented an actual production history-based yield system and a non-standard classification system to provide more tailored coverage to farmers. We have provided some flexible new choices for producers like prevented planting and replacement-cost coverage. And we have

upgraded our internal organization and infrastructure to provide better response to some of these new demands for better service or for some of these program changes.

As we look to 1995, which we are into, and on ahead into 1996, we recognize that the crop insurance must continue to change even as we move forward with implementation. We are committed to expanding this program carefully to cover new crops and to provide new insurance options for producers. We are committed to reducing the regulatory burden on the participating private insurers and our program participants. And we must also work to address these new issues that emerged during this implementation period of the new reforms that we have incurred over the past several months, and we will continue to deal with them as they arise as we move forward into 1995 and 1996.

Most important, however, now that we have put in place so many of these fundamental changes in such a relatively short period of time, it is vital that we give this new program a chance to work. Both our farmers and insurance providers alike need some period of stability in order to gain some experience with this new program, to learn to work with the new rules, and to participate in the new benefits and opportunities. This means, I believe, that there are some things that we will visit and work with you closely administratively where possible and, of course, discuss those areas that might need some legislation to fix. Farmers and insurance providers need to be able to make their long-range business and farming decisions, however, based on the knowledge that this program that we have will be there in predictable form to service the needs that they need to plan.

Similarly, I believe we as policy-makers, both in the administration as well as in the Congress, need the opportunity to gain some of this experience with the new program, to identify its strengths as well as its weaknesses and to correct these potential weaknesses, and also to review how these program functions work in connection with other USDA programs. Both the Congress and the administration invested a great deal of time, thought, and energy in developing the new insurance reforms. We do have high expectations for them, both in terms of the options and opportunities it will offer to farmers as well as the savings that will be incurred by this major reform to our taxpayers. Above all else, we want to see a program that will work over the long haul, and we look forward to working with you here in Congress and the administration to continue to improve this program as we go along.

With that, Mr. Chairman, I would like to ask Ken Ackerman to begin to go over in greater length the program provisions, and Mr. Newman, who works in joint concert with Mr. Ackerman on the commodity side and the linkage, will also be available, as well as Mr. Stencel, from the delivery side, to answer questions.

Thank you.

[The prepared statement of Mr. Buntrock appears at the conclusion of the hearing.]

Mr. EWING. Thank you very much.

Mr. Ackerman.

STATEMENT OF KENNETH D. ACKERMAN, ACTING DEPUTY ADMINISTRATOR, OFFICE OF RISK MANAGEMENT, CONSOLIDATED FARM SERVICE AGENCY, DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY JOHN STENCEL, DEPUTY ADMINISTRATOR FOR PROGRAM DELIVERY AND FIELD OPERATIONS, CFSA; AND BILL MURPHY, REGIONAL SERVICE OFFICE DIRECTOR, SACRAMENTO, CA

Mr. ACKERMAN. Thank you, Mr. Chairman.

First, I want to thank you for having this hearing this afternoon and giving us an opportunity to review with you the steps we have taken to implement the new legislation so far.

Putting aside all of the theory and philosophy surrounding the crop insurance reform program, as a simple operational matter putting this new program into place was a sizable undertaking. And acknowledging the statement of Chairman Roberts earlier, I would be the first to acknowledge that it was not without its rough edges as we went along. We had to work very hard to correct the problems as they came up during the year.

Essentially, since the time President Clinton signed this legislation in October, we had approximately 5 months to write the regulations, get input from interested parties, draft the procedures, train trainers who would then train staffs across the country, develop software and financial infrastructure systems to implement the new program, to educate farmers across the country on the new requirements, and then for us to continue a nationwide sign-up process, and in doing so, to deal with the types of questions that come up as you try to apply new rules to literally over a million different individuals circumstances.

So far, I can report to you that, despite the rough edges that you have heard about, I think we have made good progress towards achieving our principal initial goal of getting the program up and running for the 1995 crop year.

March 15th was the final major sales closing date for 1995 crops. At this point, the numbers are not fully in yet on how many people did purchase crop insurance, but our initial indications are that we will be very close to our targets.

Beyond the normal start-up problems, two factors this year were very important in complicating the process for us. The first was the simple expansion in the Crop Insurance Program that resulted from the new legislation, particularly as a result of program linkage, the fact that farmers needed crop insurance this year to qualify for participating in price support and production adjustment programs, Farmers Home Administration loans, and the Conservation Reserve Program.

If you look at the chart, this is Chart 1 attached to the testimony. The line we have been keeping the closest look on in the early implementation period is the middle one, the middle line which reflects the total number of policies that we have sold.

For 1993 and 1994, we have for you the actual number of policies in effect. For 1995, the 1.6 million is our estimate of how many policies we estimated we would need to sell this year to provide full coverage.

At this point in the year, our early indications are that we should be very close to that target. As of March 24th, the USDA CFSA

county offices alone have sold more than 530 catastrophic policies. Add to that some 530,000 policies. Add to that approximately 800,000 carryover policies plus some increase in buy-up, plus catastrophic policies sold by the private sector, and we should be very near that number.

Certainly, policy numbers alone don't tell the whole story. We need to look at quality as well as quantity, how many farmers bought up versus how many farmers bought down, before knowing how well the job was done. But as far as policies go, we think we are very close to our target.

The second area that was a significant problem involved timing. While we had a relatively short period to get the new program up and running, the legislation also moved forward the sales closing dates for this year. As a result, we had approximately 30 less days in which to complete sign-up.

This situation was complicated by the fact that the sign-up deadline for farm programs was set this year at April 28th, which itself was earlier than many recent years. As a result, there was a great deal of concern that farmers might miss the sales closing date for crop insurance and be blocked for signing up for the farm programs.

We were able to resolve this problem by applying a late application procedure which allowed farmers who qualified to come in through the end of the farm program sign-up date to buy crop insurance.

Now that we have gone through this process, we are going to start looking ahead on a number of points. Certainly foremost is the final implementation of the Non-insurance Assistance Program, on which regulations are being finalized. This program is a core part of our approach which will be very important in dealing with the situation in California.

Second, there are two particular mandates that we have under the statute which we view as paramount and on which we are getting started right away.

First is paperwork reduction and simplification. Last week, acting under the mandate of the legislation, I issued a bulletin to all reinsurance companies and all CFSA offices asking for their suggestions on how we can reduce regulatory burdens. I would ask all groups attending the hearing today and all members of the public involved with this program to look at this bulletin and to reply so that we get the most possible input in making this program easier to work with.

Second is program expansion. We will be publishing in the Federal Register shortly the criteria that new crops must meet in order to be included under Federal crop insurance. Again, I would urge all grower organizations and growers of these crops to get information to us soon so that we can continue with this process.

Mr. Chairman, I will conclude my testimony with that, and I would be happy to answer any questions.

[The prepared statement of Mr. Ackerman appears at the conclusion of the hearing.]

Mr. EWING. Thank you, Mr. Ackerman, for your comments.

We are going to take our questioning, as we have in the past, by the time the members came in and by seniority after they arrived.

I do want to mention that the ranking member, Mr. Rose, from North Carolina, is back in his home State with Mr. Rominger and was unable to be here today. But he will, of course, review the material from our hearing.

One of the most common complaints that we have had about the crop insurance concerns requiring multiple landlords each to obtain a separate CAT policy. This represents a particular problem when there are numerous family members who have an undivided interest in a piece of property and possibly they do get their payments from the Farm Service Agency separately.

I understand that we have to have some kind of a benchmark, but what, if any, plans do you have to maybe remedy that situation in the coming years?

Mr. ACKERMAN. Mr. Chairman, I appreciate your raising this question because this is a question that has been raised quite a lot by members and by farmers across the country.

As we implemented the Crop Insurance Reform Program, one of the situations that came up was because of program linkage and the requirement of a policy for each producer, we experienced the wide diversity of farm ownership structures across the country. Essentially, there were a number of situations of multiple farm ownership, both in terms of multiple landlords, husbands and wives who qualified for separate program benefits, various ownership arrangements involving sharecropping for tobacco and other crops, all of which we had to look at.

This is one area that I think we are going to have to review between now and 1996. The statute required that each program participant, essentially, be required to get a policy in order to maintain linkage. In the course of the sign-up period, we issued directives to the county offices basically trying to simplify the process by saying any farmer or landowner who received a separate benefit check would need to purchase a separate policy; that multiple owners or members of partnerships had the ability, the option, of consolidating their holdings and receiving single benefit check. If that were the case, they would only have to buy a single policy. Similarly, if they bought up and bought a higher level of coverage, then these \$50 payments would not apply.

But this is something that we are going to have to look at between now and next year.

Mr. EWING. If they bought from a private company, did they pay the \$50 and they didn't buy up?

Mr. ACKERMAN. Yes. The rules were intentionally uniform between how you were treated if you went to a private agent versus how you were treated if you went to a county office.

Mr. EWING. Well, I very definitely think that we can and should be able to devise a better and fairer way to implement that charge, and I would hope that you would and I would want you to keep us informed as to what your plans are in that regard before next year.

Mr. ACKERMAN. Yes, sir.

Mr. EWING. The California floods are going to be probably a real test of our Non-insured Assistance Program. Does the Department have any feedback on the California losses and how many crops may be eligible for the NAP program?

Mr. ACKERMAN. Mr. Chairman, I have asked Bill Murphy, who is our regional service office director in Sacramento, California, to be with us today and to be prepared to discuss where we stand in California.

Mr. MURPHY. Well, the damage is throughout the State. The most severe at this point is Monterey County. Monterey is also where we have the NAP crops. The damage in the other part of the State I feel confident that the insurance program will take care of.

In Monterey—and Dick Nutter is here also, and I believe he is going to talk on Monterey specifically, but we have over \$400 million in damage to the NAP crops, and they include artichoke, broccoli, lettuce, cabbage, and a few others.

What we are doing right now is we have about five people down in the area, and we are trying to delineate that area which triggers the payment under the NAP program. So that is where we are right now.

Mr. EWING. And what were the crops, did you say, without going through it again? In which county?

Mr. MURPHY. Monterey has the majority of the NAP crop damage right now.

Mr. EWING. All right.

Mr. MURPHY. The rest of the State has also sustained damage, but they are primarily stone fruit, wheat, almond damage, for which we have insurance programs, and I am confident they will be taken care of on an individual basis, depending on what level they bought. The additional coverage program is fairly popular with the almond growers, and I am confident that the private industry was able to service that business.

Again, it is the NAP crops that is posing somewhat of a difficulty. Number one, it is the first year working with the program, and that requires that we delineate an area for which there was a greater than 35-percent loss for an individual crop. Then at that point, producers are paid on a 50-percent loss basis at 60 percent of the determined market value of the crop. So that is what we are doing today.

Mr. EWING. I think it is important, as we work through this catastrophe and the uninsured crop part of it, that you keep the committee informed of the implementation and how it is working out. It would be very much appreciated.

Mr. Pastor from Arizona?

Mr. PASTOR. Thank you, Mr. Chairman.

As you know, crop insurance varies in different sections of the country, and my first question is: Have you developed or will you develop policies to reflect the regionally related needs?

Mr. ACKERMAN. In our policy, we try to do that as best we can. We have a system of regional service offices whose principal job is to keep an eye on unique circumstances in different parts of the country. We try to build unique needs into our policies as best we can.

Mr. PASTOR. More specifically, do you think you will be developing crop insurance options for those regions like in the arid Southwest where the 15- to 20-percent yield loss represents a dramatic loss?

Did you say yes, no, maybe?

Mr. ACKERMAN. Let me answer what I think the question is. Under the legislation, currently we offer crop insurance with a deductible. You can buy insurance at the buy-up level. Most farmers buy 65-percent yield coverage. We sell it up to 75-percent yield coverage.

For many farmers, that 25- or 35-percent deductible is very significant. We do have authority under the legislation to go up as high as 85 percent, which would mean that you would have a deductible as small as 15 percent.

We chose not to implement that authority in the first year because it does create a number of underwriting questions. It does create a significant financial risk for FCIC, for the insurance fund to do that.

We want to write those policies at the 85-percent level, but we understand that we have to do it very, very carefully. We are probably going to have to establish some special underwriting rules, make the requirements for purchase of them fairly strict. But that is something that we do want to do.

Mr. PASTOR. Thank you.

In Arizona, we have a lot of tenant farmers, and they may farm 3, 4, years and then get a better deal, and they move, basically in the same valley, in the same locale.

Would you be able to adjust your policies to allow the production history built on one farm to be carried over to another that has the same qualities and is virtually identical for production purposes?

Mr. ACKERMAN. We have built some flexibility into our actual production history system. I would have to look at the particulars. There are situations where we have allowed farmers to carry their yield to adjacent property. Generally, if they are skipping over a number of counties to a new piece of property, it is more difficult to do that because of the underwriting risk. But we would be happy to look at the situation.

Mr. PASTOR. My last question deals with how you determine how new crops will be added to the list. I saw in your testimony there are two crops going to be added this year.

Mr. ACKERMAN. That is correct. We have a list of crops for which we currently have feasibility studies underway for addition to our program over the next 2 to 3 years. That list was put together based on the economic size of the crop, the number of farmers, the economic value of the crop.

I mentioned during my statement that we are putting out in the Federal Register shortly a set of criteria of data that we would need to receive from the growers of crops that are not on that list in order to get on that list. And I would suggest that if you have growers who are interested in doing it, that would be the avenue to follow.

Mr. BUNTROCK. I might just add in general, Mr. Pastor, that this is something that we consider to be—one of our major goals is to expand this coverage. As you know, the actual crops that were offered when this started pretty much picked up on where the old Federal crop was at, and we have been adding onto this list 50-some crops that formally historically had been covered.

Under the non-insured crops, there are some 200 crops that aren't covered. I don't know how long it will take to get there, but

it is certainly, working with the industry, one of our major goals to continue to expand this coverage beyond these traditional program crops that we have always kind of covered and get into some of the more non-traditional crops. So that is certainly a major goal and something that we are going to work towards.

Mr. PASTOR. You say the criteria will be announced relatively soon?

Mr. ACKERMAN. Yes.

Mr. PASTOR. Would you like to share any of the criteria, or is it—

Mr. ACKERMAN. I can provide you a copy of the criteria. They are rather lengthy. It is about three pages long, the specific data elements we need: yield information, economic information from a certain number of counties, how many counties we need. That kind of very specific statistical data.

Mr. PASTOR. Do you take regional considerations in the criteria, or have you, or will you?

Mr. ACKERMAN. Yes, we do.

Mr. PASTOR. Thank you, Mr. Chairman.

Mr. EWING. Thank you.

Mr. COMBEST.

Mr. COMBEST. Thank you, Mr. Chairman.

Mr. Ackerman, on the second chart back there, the crop insurance expansion, of course, we didn't have a catastrophic program in 1993-94. The total policy line, the middle line there, you said that was the one you were looking at the most. It has jumped from 811,000 to 1,672,000. That includes the catastrophic policies as well, does it not?

Mr. ACKERMAN. Yes, it does.

Mr. COMBEST. Do you know what percentage of the—well, I am not sure how to ask this question. One of the concepts in the program as we were going through it last year was to hopefully provide the opportunity for people to buy up more than the 65 percent. Since you really have nothing to compare it with in the past because we didn't have a catastrophic policy on which to base it, let me just ask it this way: How successful have you found that to be in encouraging or creating an incentive to buy up?

Mr. ACKERMAN. Mr. Combest, the honest answer is it is still too early to say. We don't know. I have heard anecdotally from various people around the country that in some cases agents have been very successful in getting farmers to buy up. I have heard other anecdotal information that in some cases farmers have chosen to buy down. Frankly, it is a concern that I have and that we will have to watch very carefully as the numbers come in.

As you say, it is very important to the long-term success of this program that more farmers over time choose higher levels of coverage. In this initial year, we have had a very important goal of making sure that our coverage was broad, that we had the largest number of farmers sign up in order to make sure that farmers maintained program linkage and that they were covered in the case of a disaster.

But now that we have gotten through this first year, I think it is very important that we put an emphasis on quality and value to make sure that in the years to come more farmers do buy up.

Mr. COMBEST. Well, I guess the only comparison that one can draw from this, it would be interesting to see in terms of the number of policies that were buy-up policies. The number of policies, let's say, at 65 percent in 1993 or 1994 versus 1995, to see if there has been any changes, any substantive changes. Certainly the number of policies is going to increase just because of the mandatory provision in it.

The premium rate increase situation, as we discussed, of course, was to hopefully be able to encourage farmers to buy up. You had estimated that after the reform, their premiums would decrease by approximately 17 percent at the 65-percent coverage level, approximately 8 percent at the 75-percent coverage level.

Has that pretty much held true in most parts of the country?

Mr. ACKERMAN. Let me be very clear on this because there has been some variation. The 17-percent figure was the out-of-pocket expense reduction that we estimated based on the increase in subsidy for policies at the 65-percent yield level. Separate from that, there have been premium adjustments in various areas around the country based on our need to get to a 1.1 loss ratio in the near years and 1.075 loss ratio in the out-years.

The premium adjustments that have occurred are based on 20 years of data. They are limited. In most cases, they are 10 percent or under. But they vary county by county within different parts of the country.

As a result, virtually all farmers should see some out-of-pocket cost reduction, although, yes, you are correct that in some areas rate increases may have offset some of it, some or all of it.

Mr. COMBEST. That has been the case out in our part of the country. I understood they were already scheduled to take place. At least what farmers are telling us, any of the incentive basically has been depleted. I guess if you are comparing that, if it hadn't been the case, it would have been higher, anyway.

Mr. ACKERMAN. That is correct.

Mr. COMBEST. But whether or not that encourages farmers to buy up, I will be very interested in what you mentioned earlier about the number of farmers that have decided to buy down that are actually buying less insurance than they were.

I was pleased last year at USDA's willingness to work with those of us from areas that have had losses to devise a plan to keep APH's from plummeting to extremely low levels after a few years of loss. Setting a floor at which yields cannot drop below has helped to allow some farmers to maintain acceptable levels of coverage.

However, since the premium is based on the true APH rather than the APH with a yield floor, it has proven to be cost-effective for most producers in these circumstances. My concern is that this could be causing many producers to drop higher levels of coverage and opt for only the catastrophic level.

Has there been any consideration given to allowing producers to choose to insure at the floor APH level rather than at the premium based on the true APH?

Mr. ACKERMAN. That was considered last year when we put in this catastrophic yield adjustment system. Basically, we were very concerned, as you were, as were many members of the committee and farmers across the country, that if a farmer had one or two

very bad years, that could wipe out their APH and give an unrealistic yield.

We tried to address that by putting in two forms of catastrophic yield adjustment. One is the so-called cups and caps, which means that your yield cannot fall more than, I believe, 10 percent in any one year, kind of a soft-landing system. That is something farmers get without a surcharge. That is simply built into the APH system.

Then on top of that, we created separately a catastrophic yield floor so that if you had a long series of down years, the soft landing would have a bottom under which it could not fall.

There was some discussion about whether or not to charge a true premium for it. For actuarial reasons and cost reasons, we chose to require a true premium for it. That is something we can revisit this year. We would want to see a little bit more data on how this has worked out in practice. It is the first year that we have done this.

Mr. COMBEST. Thank you, Mr. Chairman.

Mr. EWING. Mr. Farr.

Mr. FARR. Thank you very much, Mr. Chairman.

I was just thinking this might not be the most important hearing on the Hill as far as the rest of Washington is concerned, but certainly to the valleys that I represent, this is the most important hearing going on in America. The Salinas Valley and Pajaro Valley are underwater; \$240 million worth of agricultural crops have been washed out to sea, and in most cases the soil right behind them; and you are going to hear from Dick Nutter in a moment from Monterey County about flood damage there.

I just want to say for the record and for everybody here, you don't know about these programs until you have to walk in the moccasins going through it. And I am learning as fast as anyone in this room about the benefits and also the problems with the program. But I want to thank Mr. Ackerman and Mr. Newman and Bill Murphy, who was in Salinas with me on Saturday, for the quick action they have taken. Yesterday, they determined that with an administrative order the debris and silt could be removed from inside greenhouses and other confined areas under the Emergency Conservation Program, and I really appreciate that fast action.

The difficulty that we are finding in this area are farmers—and I actually know many—who have had \$5 million worth of crop in the ground washed away, who don't qualify for this program. If they were selling the produce in a business, if it was a grocery store or a flower shop or something like that, they could apply under SBA and get up to \$1.4 million in SBA loans. But since they are in agriculture, they fall through all the safety nets.

My question goes to two things. One is, How many producers do you believe will be ineligible for the NAP program because of the \$2 million cap restriction? I don't know whether that is Mr. Ackerman's or Mr. Murphy's response. Second, I just want to comment to Mr. Ackerman before he responds that in the summary of your testimony, it says that farmers affected by flooding in California did not need to ask Washington for a special ad hoc crop disaster bill in order to get protection. I think you are pointing out that the insurance program is working well. But if these farmers, in answer

to this first question, are not getting help, we are going to need legislation.

I would appreciate your comment on that.

Mr. MURPHY. I was just in the Salinas CFSA office working with Vivian Sopha this past week, and that is one of the issues we are looking at. She has about 110 growers who have come in to which that \$2 million cap does not apply. She figures about 15 to 20 producers have turned around and left the office when they read about the \$2 million cap. So I would say anywhere between 15 and 20 percent, if that is representative. We don't know how many producers who have experienced damage, say, in 1990 and were turned away under the old ad hoc disaster program, which had the same cap, knew just not to come in this time. So it is hard to get a handle on that.

Mr. ACKERMAN. I would just comment briefly on the general point. Yes, as you noted and as others have noted, the California flooding is the first real test for this new program, and I can tell you that we are trying to be very careful as we put the final touches on the regulations governing the NAP program to see what the experience is, to make sure that those regulations will work for the NAP program. And I do appreciate the opportunity you have given us to work with you to try to work out the questions as they have come along.

I do stand by that statement in my testimony. The point is this: The new legislation gave us a lot more administrative tools to work with, before having to come to Congress and ask for special legislation. Legislation for disaster aid has sometimes been easier to get, sometimes has been more difficult to get. It has been anything but constant.

In this case, we have legislation on the books today which we believe we can work with to deal with the bulk of the problem. It may not be perfect. It may have rough edges. But we think we can work with you and with others in California to use it to answer questions now rather than to have to wait several months for a separate piece of legislation to go through.

Mr. FARR. What I would like to ask you to do is to look at the equity, sort of the equal playing field issue between what businesses can recover in a disaster and what farmers can recover in a disaster; because they are all really working together in a community, and when they see that there are benefits for one that don't apply to the other and Government sort of stands behind it, the FEMA process, they get very angry. And right now they are very, very disappointed that this program, which was designed to cover incidents like this, closes them out because of a decision to prohibit anybody with a \$2 million growth from applying. Frankly, I would like to see if we could change that.

Mr. ACKERMAN. All I would comment is this: We would truly want to see any proposals in this area. The \$2 million cap for the NAP program is something that was discussed to some extent last year when this legislation was being debated. There was some consideration given as to whether it should be included in the NAP program or not.

Generally, the decision made last year was to keep the \$2 million cap, basically because of two considerations. First, it has been in

the law since the late 1980's. It has applied to every disaster program since then. There was some feeling, as a matter of equity, that what applied in the past should apply in the future.

Second, if it were to be adjusted, there would very likely be a budget score attached to it, and that would require potentially a budget offset.

Mr. FARR. I have no further time, but the remaining comment is: Is that fair? And I don't think it is. It is an arbitrary cap, and it is unfair.

Mr. EWING. Thank you. I would remind all the members of the committee that they can submit written questions also beyond those that they have asked, and the Department, I am sure, will get answers back to the committee and to each of the members.

Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

I want to ask Mr. Buntrock this question. I have been getting a lot of complaints from my district on the inequities and the early deadlines and the mandatory linkage and so forth. I notice in your statement and in what you said earlier that it took a short period of time to get this program up and going; we need a period of time to see if the reform is going to work. But I have a lot of my farmers that have been disgruntled, saying that they are not going to participate in the program.

What do you see as the greatest weakness so far, and what can we do to correct it as soon as possible?

Mr. BUNTROCK. Mr. Lewis, you have covered a wide range there in that question.

Mr. LEWIS. Yes.

Mr. BUNTROCK. Obviously, one of the very difficulties that have been acknowledged by most members here and that we have all expressed is the very short time frame and our ability to get a very clear set of information and requirements and so on out to producers across the country. If I was going to point to one thing up to this point that has been difficult, it has been that, where I suspect that in some cases producers may have just simply because at a particular time had a lot of frustration because of that lack of some very detailed questions that applied to them.

Overall, I think some of them that have been mentioned here today. One of them is the landlord tenant, the number of producers; I think very much so that that is one that we do need to revisit in terms of that linkage requirement that we now have.

It is reasonable when you have a straightforward tenant-landlord relationship on a unit and the coverage is going to cover only the operator or the tenant side or vice-versa to look at that. But when you get into these situations where you have multiple entities that have an interest in a farm, I think we are going to have to look at that and find some other ways to do it. Either that, or when it runs up high enough where they would be much further ahead to buy up and to buy this several thousand dollars. So I think that is one area that we certainly do need to look at and try to make some improvements.

I think another area that we are going to be dealing with even now is these dates, these reporting dates, as most of you are very much aware. Prior to the merging of these ad hoc programs and

the former Federal Crop Insurance Programs, these dates were set rather independently by the crop insurance or the commodity programs, and we have made a lot of efforts to pull them together. I think there are some of these dates that we are going to have to relook at.

I think, quite frankly, another area that we are all going to be facing very soon with this linkage thing is the manner in which we announce and administer our regular commodity programs. As long as we have this linkage, I think we are going to have to look not only at crop insurance separately from our commodity programs, but we are going to have to begin to look at that more comprehensively to make that much more compatible than we have now. I think we have come a long ways in getting there, but I think we are going to have to look at that more for 1996.

So those are just two or three areas, Mr. Lewis, that I think would strike me offhand. A lot of it I think we can fix administratively working together.

Mr. LEWIS. Thank you, Mr. Chairman.

Mr. EWING. Mr. Baesler.

Mr. BAESLER. Thank you very much.

I would like to ask you three or four specific questions about tobacco, and I think you have talked about it just a little bit, but I want to make sure.

If I understood the comments earlier of Mr. Ackerman, I believe, you indicated that you all are probably going to look at this idea about covering it by farm rather than by producer; in other words, there would be a certain figure just for the whole farm?

Mr. ACKERMAN. The idea that we had talked about on tobacco that we were considering, that we were looking at for next year, would involve situations where there is one quota holder with a number of people holding undivided interests in the farm; that in those cases, we would trace the requirement for a policy to the quota holder, to the person who holds the quota.

Mr. BAESLER. Fifty dollars for the quota holder, and however he or she wants to divide it up, that is how they would do it?

Mr. ACKERMAN. It would be \$50—it would be a policy for each person who has a separate marketing card. So that for undivided interests, that would result in one person having a marketing card.

Mr. BAESLER. Whoever has the marketing card would pay the \$50?

Mr. ACKERMAN. Correct.

Mr. BAESLER. So if there is one marketing card per farm, he or she would pay \$50?

Mr. ACKERMAN. That is correct. That is what we are looking at for next year.

Mr. BAESLER. I don't think that is what our people in tobacco are talking about, but the second thing is in answer to Mr. Lewis' question a little bit, but the deadlines of March 15th are obviously very unrealistic with regards to tobacco. So are we considering moving them back like the lease deadlines, or have you given any thought to the deadline, the date, at this point?

Mr. ACKERMAN. We are looking at that. This year we were able to deal with the problem through the late application process. I

don't know if that fix is going to work for next year, but this is clearly something we have to look at.

Mr. BAESLER. So I would suggest to you to make it July 1st, because that is the same time we have all of our lease programs in tobacco. It is the same time that the farmers are talking about.

Mr. ACKERMAN. The constraint that we are under is that, by statute, our sales closing dates are required to be 30 days earlier than they were for 1994, and that is the reason that our dates were in February and March this year, while they were generally in March and April last year.

Mr. BAESLER. I understand. I think the rationale for the first could be several things, one being the lease on tobacco. The second is you have to declare to your agent if you are moving up on the insurance spectrum. As you well know, they check you by July 1st. You have to have it all set by July the 1st. So it all fits right into that, I think.

The third thing is to deduct the \$50 administrative fee at the time of sale. Have you given any thought to that?

Mr. ACKERMAN. The statute requires that the \$50 be paid at the time of application. Again, that is a legal constraint that we have to work with.

Mr. BAESLER. But you are talking about making some changes next year, I thought.

Mr. ACKERMAN. That is not a change that we can make administratively, as I understand it.

Mr. BAESLER. You have to do that in here, right?

Mr. ACKERMAN. Yes.

Mr. BAESLER. Okay. Thank you.

Mr. EWING. Mr. Chambliss.

Mr. CHAMBLISS. Thank you, Mr. Chairman.

One crop that is being looked at in our area as an additional crop and maybe a substitute crop—some existing crops that we have is canola, and I know you all have some test programs going on out in the Northwest on which you are gathering data, and I understand that in 1996, I believe, you are going to continue with that pilot program. Am I correct with that?

Mr. ACKERMAN. That is correct. We are going to continue in it, and we are open to looking at areas for expansion of that pilot program.

Mr. CHAMBLISS. Good. We have a lot of pecans, peaches, produce, grown down in our area, crops that are not covered. I think, again, there are some of those covered out in California, particularly produce. Is there any plan to do testing for covering of those types of crops in our area, particularly pecans and produce?

Mr. ACKERMAN. There are a number of those crops that are on the list of crops for which we have feasibility studies underway right now that we are looking at expanding into over the next couple of years. Pecans I know is one that has attracted a great deal of interest. It has some peculiar underwriting issues attached to it that we are looking at, but that is one that we have a study actively underway on. I believe we also have a feasibility study underway on lettuce and some of the other vegetables.

As far as which ones may be covered in other States, that I would have to look at the particulars.

Mr. CHAMBLISS. One thing that we are looking at with respect to peanuts is allowing cross-county-line lease and transfer. Do you see any problem from a crop insurance standpoint with going across county lines? We have got different yields, obviously, in different counties, but my understanding is the way we insure peanuts, it should not be a problem. But it just occurred to me while I was sitting here thinking.

Mr. ACKERMAN. I think I would have to punt on that question. I am really not sure. There are some questions that would come up about how you would transfer yields, how APH's would work under that system. The yield system for peanuts works a little bit differently from other crops. I would have to look at a proposal more carefully before commenting.

Mr. CHAMBLISS. If we go across county lines, obviously anybody that has been growing peanuts and has a history would be able to use his history. But I think it is very likely that we are going to find some growers who don't have any history.

Mr. ACKERMAN. That is right. I know that in peanuts if you transfer your history—or if you transfer your farming operation to a different county that is not contiguous with your prior county, there are limits on where you can transfer your history. And that has been a problem. I don't know if that would affect this proposal or not.

Mr. CHAMBLISS. I know we are doing it with cotton in counties where we have got growers that have not planted cotton for a while, but in my district we have got a lot of new farmers growing cotton that there are no histories in the county, and you have got what you call the T-yields, the transitional yields.

Mr. ACKERMAN. That is correct.

Mr. CHAMBLISS. Where you are just assigning values to them. Is that something that you think might be feasible if we do provide that, cross-county-line transfers with peanuts?

Mr. ACKERMAN. We have a separate system for peanuts. We don't use T-yields. We use yields that are—it is a similar concept of using a program-based yield, but it is somewhat different. It generally does result in a somewhat lower yield for a person. But, again, this is something that we would have to look at.

Mr. CHAMBLISS. Thank you, Mr. Chairman.

Mr. EWING. Mrs. Thurman.

Mrs. THURMAN. Mr. Ackerman, hi. As you know, last year when we went through the crop insurance reforms, we talked particularly kind of going back to what Mr. Chambliss was talking about on the non-covered category. Where are we—because I know there were some that were potentially being looked at for 5 years or we were trying to get in in the 5 years. Can you update us on this effort? And what particular crops might be added into the insurance category anytime soon?

Mr. ACKERMAN. If you can bear with me while I find the right piece of paper?

Mrs. THURMAN. If they will start my light over. [Laughter.]

Mr. ACKERMAN. Well, generally, the crops that we are looking at for the next several years, we are still following the same list that we supplied to Congress last year during the consideration of the legislation. There were, I believe, six crops listed for feasibility

studies for including in 1996. Those studies are generally still on track. One that was mentioned earlier that has drawn a great deal of interest is pecans. As I mentioned, there are a number of underwriting issues that have come up on that crop because of the way that pecans grow. They generally have a strong yield every other year, which has raised some underwriting questions about it. But that is one on which we have a study underway.

Citrus trees in Florida is one that is very much on track for 1996. There are a number of vegetables that were included in the 1996 group of six, which as I understand are also underway. We are checking, I believe, on those to see the level of grower interest in them. But those studies are all underway.

Mrs. THURMAN. So they are on track. I think Mr. Farr would like me to yield to him for just a second. I yield.

Mr. FARR. Thank you very much.

Mr. Ackerman, is there incentive with the floods in California for these non-insured crops to get into the program faster? And with the knowledge that you are gaining in doing the assessment of damage, not all of these crops are on your pilot studies for either 1996 or thereafter—and I wondered whether with the information you are gathering might it accelerate the opportunity for the other crops not listed to be considered?

Mr. ACKERMAN. Certainly, yes. By the way, one other crop that is on our list for inclusion is strawberries.

Yes, when we designed the NAP program, the idea was very deliberately that we would start collecting acreage data, planting data on the crops under the NAP program. For instance, we require a yearly acreage report under the NAP program in order to start collecting this kind of data.

To the extent that we try to be slow and deliberate about adding crops to the Crop Insurance Program, the reason is that it is subject to a statutory actuarial soundness standard while the NAP program is not. We did go through a period of very rapid expansion in the early 1980's with crop insurance and found that we were insuring some non-actuarially sound crops. We were backing programs that were losing very high levels of taxpayer money. It was something that we were criticized very severely for.

That is why during this period, yes, we do want to expand, we do want to bring new crops in, but we are trying to do it very carefully. We are trying to make sure that crops we bring in are crops that do have a strong economic base, are crops that have a good growing history, are crops where we have enough data that we could set actuarially sound rates that will hold up over time.

So if it does appear to take a while to get crops through the system, that is the reason. We do hope and expect that having the NAP program on the books will speed that up in the future.

Mrs. THURMAN. Do you yield back?

Mr. FARR. Yes, I yield back.

Mrs. THURMAN. Some of our farmers in Florida have not participated in insurance programs before, and I know that there has been an extensive outreach program, not only through USDA but the Farm Bureau and other organizations within our State. And yet some of them still are not giving our yield histories.

What will happen, particularly after what has happened in Mr. Farr's district, if we are hit with another hurricane in Florida? Would they be able to seek any kind of disaster assistance? Do we just turn them away? What is going to happen in these situations?

Mr. ACKERMAN. Well, if there were a hurricane in Florida, if there were that kind of situation, there would be a number of programs that would come into play. The insured crops would be covered under the insurance program, catastrophic and buy-up. As you know, we did try very hard this year to reach as many farmers as we did to urge them to sign up.

Mrs. THURMAN. And I compliment you for that.

Mr. ACKERMAN. Those that are outside the insurance program would be covered by the NAP program. There are other USDA programs that kick in in this kind of situation—the ECP program that we were discussing earlier and others.

The statutory bar in the legislation on ad hoc disaster aid applies to crop losses. Certainly, other areas such as losses to bridges, streets, infrastructure, are covered separately or would be treated separately.

Mrs. THURMAN. Thank you.

Mr. EWING. Mr. Ackerman, isn't it true that the producers, we want to try and be sure before we bring new crops in that the producers are interested in the program? Is that not correct?

Mr. ACKERMAN. That is absolutely true, yes.

Mr. EWING. So it is just not a matter of whether they might have had damage but whether there is interest among the producers to participate.

Mr. ACKERMAN. Yes. This is one of the issues that we look at when we conduct these feasibility studies, is what the level of producer interest is and what the level of potential participation would be.

Mr. EWING. Mr. Doolittle.

Mr. DOOLITTLE. Under the Non-insured Assistance Program, an eligible crop is a commercial crop or other agricultural commodity except livestock. It has come to my attention, however, that seed crops are not considered an agricultural commodity because they are not considered to be food or fiber.

Would one of you gentlemen care to comment on that and explain?

Mr. ACKERMAN. Yes, you are correct. The legislation last year did statutorily limit the range of crops that would be covered under the standing disaster program. In the past, USDA ad hoc disaster programs had covered literally over 1,600 different crops, and many of those crops were very difficult to administer.

When the new program was proposed, originally it was limited to crops grown for food and fiber. That list was expanded during the committee consideration of the legislation to include various forms of nursery crops and others. But, yes, it is still a somewhat limited list, and seed crops are one of the groups that is not under it. That is correct.

Mr. DOOLITTLE. Do you have any feeling as to in the future for seed crops?

Mr. ACKERMAN. We are working with the statute that was presented to us. It was written that way for a number of reasons, pri-

marily budget scoring at the time because of the cost of ad hoc disaster programs and the cost of adding crops to that list.

Mr. DOOLITTLE. You would agree that a seed crop is, in fact, an agricultural commodity; right?

Mr. ACKERMAN. Yes, but I believe the statutory language is "grown for food or fiber."

Mr. DOOLITTLE. Okay. I notice they have got protected on here, Christmas trees, ornamental nursery, turf grass, sod. So I don't know. It seems to me a very artificial distinction.

Thank you.

Mr. EWING. Mr. Foley.

Mr. FOLEY. I understand there has been an additional \$10 million funding request on the rescission bill for FCIC. Can you explain to the committee why the funding is needed and where it came from?

Mr. BUNTROCK. If I might respond to that, Mr. Foley, just in general, that supplemental that you referred to is part of the rescission bill. Of course, it was not an administration request. It was some thoughtful member here in the Congress.

But to give you some background on it, as you will recall, during the appropriation process for administration of these programs, we are administering an ad hoc disaster program for 1994-95. We are in that period right now of continuing to administer that. That was never funded in terms of any salary expenses or any funding for that.

In addition to that, the non-insured crops that we refer to, which is basically administered by the CFSA agency as a whole, which literally requires reporting of all of these crops in advance as a condition of eligibility should that disaster occur, that also was not funded. The only recognition of funding for the administration of this overall risk management was the \$50 fee that is collected either by the insurance industry as they deal with them or by the CFSA office. So there was definitely a shortfall in terms of the overall funding for administration of these ad hoc programs.

In addition to that, I left one other item out, and that is another announcement that was made by the Secretary last fall, and that relates to the CRP program, early-out option and follow-up with the sign-up that we will be conducting, which was announced after the appropriation passage.

So this reference to the question of administration in the county office of the catastrophic and so on, this is not a part of the funding related to catastrophic insurance being sold by the county offices, but the non-insured crops as well as the other items that I made reference to.

Mr. FOLEY. The insurance itself, though, is sold locally, isn't it?

Mr. BUNTROCK. That is correct. The catastrophic coverage through the county office or through the insurance industry, insurance agents.

Mr. FOLEY. What kind of a commission is yielded on the crop insurance?

Mr. BUNTROCK. Well, the \$50 fee, the \$50 charge to a producer, of course, is not obviously intended to actually—for the coverage of the insurance itself but the processing or handling cost in connection with that activity, which is basically the only income from

that. In other words, it is associated with the actual administrative costs of simply handling the application, the development of the APH's, and all of the other related activities that go along with that catastrophic coverage.

Now, if you want to talk in terms of the industry's cost, administrative cost and so on, on buy-ups and that sort of thing, that gets into another area where a producer is going to the industry and actually buying additional insurance beyond that \$50 minimum catastrophic, which gets into another area.

Mr. SMITH. Would the gentleman yield?

Mr. FOLEY. Yes.

Mr. SMITH. Grant, I am not sure. As far as the commission of the private agency, though, does that \$50 all go to the insurance carrier? What happens to that \$50?

Mr. FOLEY. Let me ask Mr. Ackerman, when you talk about the carrier and the \$50 and how that works.

Mr. ACKERMAN. For the private agents, the \$50 is basically what they have to be divided among the company and the agent, recognizing it is a fairly small amount of money. For buy-up coverage, commissions are generally more. Some percentage anywhere—well, they range quite a bit, but some percentage of the total premium, generally quite a bit higher than catastrophic.

Mr. FOLEY. Let me reclaim my time. Did the OMB authorize any additional shifts of funds to the Consolidated Farm Service Agency?

Mr. ACKERMAN. Under the legislation, authority was placed in the legislation to allow us to fund certain start-up and research and development costs from the FCIC fund, particularly in the opening year; and, yes, we did receive an apportionment from OMB to look to the fund for some amount.

Mr. FOLEY. From the FCIC fund?

Mr. ACKERMAN. From the FCIC fund. This is generally for start-up costs and some research costs, new computer programs, things like that, public outreach—a number of items of that nature.

Mr. FOLEY. I want to follow up before my light signals. Specialty crops were mentioned, the non-insured specialty crops. And last year the legislation provided for a specialty crops coordinator within USDA to address the needs of the specialty crop producers. Has that position been filled?

Mr. ACKERMAN. Yes. That person has been hired, and he is very active in that job. He was involved in putting together the list of criteria for new crops that we will be publishing shortly, and so far he has gotten off to a good start.

Mr. FOLEY. Thank you. I yield back.

Mr. EWING. Mr. Smith, do you have some questions?

Mr. SMITH. Mr. Chairman, thank you very much. Just one short question.

I thought, Mr. Buntrock and Mr. Ackerman, that last year when we were discussing this, I asked a question: If a small part of your farm were in an adjoining county but all signed up as one farm in one county, would there be a \$50 fee for each crop for each county? I understood you both to say no, and so I went home and I told my neighbors that had a lot of land located in two different counties but actually signed up as one farm in one county, and then I was a little embarrassed because I turned out to be wrong. I either

misinterpreted you, or we wrote the regulations that weren't consistent with what I understood you to say.

Mr. ACKERMAN. Let me be very clear on what the rule is, and I apologize if I misstated it or stated it—

Mr. SMITH. The rule, as I read it, as they showed it to me as I paid my extra \$50 on my farm, says that if one field extends from one county—and, of course, in our area of the country, we have roads that separate counties.

Mr. ACKERMAN. That is basically correct. You were shown the rule. If a field basically crosses a county line, then it is treated as in one county. But generally, again, the statute said that we had to charge \$50 per crop per county, and generally that meant that there were different farms in different counties even though they were treated as one farm in terms of farm serial numbers for the farm programs. If it was different crops in different counties, then generally they were treated as separate policies, with that exception of the adjoining fields that were split by a county line.

Mr. SMITH. So, technically, could I plow up the road, and then would that qualify as one field?

I am kidding. Mr. Chairman, I don't have any further questions. It is inconsistent. It is awkward, because sometimes 98 percent of the land—and there is a little 10-acre field on the other side of the road, and now because you don't designate necessarily whether part of that field or all of it is going to be in what crop, then it seems to me it ends up being somewhat unfair. So I hope we look at that next year.

Thank you, Mr. Chairman.

Mr. EWING. Thank you. I think when we get the block grants in mind, we will be able to administer that easier, as Mr. de la Garza had suggested. [Laughter.]

Could you give us the name of your specialty crops coordinator?

Mr. ACKERMAN. Floyd Neurenberger.

Mr. EWING. As I had suggested to other members of the panel, I want to submit to the Department for comment concerning some non-standard classification, and another concerns a situation in Nebraska that has been brought to the subcommittee's attention regarding high-risk and uninsurable classifications of certain lands in Cass and Richardson counties. I will submit that to you for your review and your answer.

Mr. EWING. I thank the panel very much, and I hope that you can stay around for the remainder of the hearing in case there are questions that come up that might require you to come back to the table and clarify the situation. Thank you.

Mr. ACKERMAN. Be glad to.

Mr. BUNTROCK. Mr. Chairman, we thank you. I am not sure I will, but Mr. Ackerman, who has got all the answers, anyway, will be here. Thank you.

Mr. EWING. We will ask the second panel to come forward: Mr. Merlin Plagge, President of the Iowa Farm Bureau, and Mr. Bob Odom, Commissioner of the Louisiana Department of Agriculture and Forestry.

Gentlemen, welcome. And we will go with you, Mr. Plagge.

**STATEMENT OF MERLIN PLAGGE, PRESIDENT, IOWA FARM
BUREAU FEDERATION**

Mr. PLAGGE. Thank you, Mr. Chairman. I am Merlin Plagge. I farm in north-central Iowa. I farm with my son. We have long been a user of the Federal Crop Insurance Program as a risk management tool. I am also president of the Iowa Farm Bureau Federation and a member of the Board of Directors of the American Farm Bureau, and it is for the American Farm Bureau that I am speaking today.

We have filed a statement, and I am just going to very briefly, very quickly, summarize that statement, Mr. Chairman.

The Farm Bureau certainly has been and is pleased that Congress did approve a new Crop Insurance Program last year. We long have said that we should eliminate the ad hoc disaster programs, the annual disaster programs that Congress seemed to have worked at, and combine all of this into a very comprehensive Crop Insurance Program.

I think we in the past have not attracted the proper amount of participation in the Crop Insurance simply because of those ad hoc disaster programs that were in place. So with that in mind, we strongly do feel that crop insurance does need to be a part of a farmer's total risk management tool.

The Farm Bureau does support Government's supplying the catastrophic portion of crop insurance and of regulating it. But we feel very strongly that from that point then the private sector ought to be taking over and that they can offer that additional coverage. We think that the private sector should be administering the program.

Although we feel very strongly about the need for this, we feel good about the fact that, indeed, Congress has adopted a new crop insurance program, obviously, as has been stated earlier this afternoon, there are a great many concerns with the present program.

Let me say up front I think that is to be understood. This program was put together rather late in the year last year, and with any new program I think we should understand that there will be some problems. Just let me tick off a few of the concerns that we have at the present time.

The Farm Bureau has long had a position that would be in opposition to the mandatory linkage with Federal crop insurance and farm programs. Our membership has simply said that there are some farmers who simply feel they do not need to be a part of the crop insurance program. They use other management tools, and certainly it involves a great deal of different types of tools, certainly irrigation, that they in a sense be self-insuring themselves. The diversified type of farming operation, maybe they don't feel they need it. So, number one, we do have concern and continue to have concern about the mandatory linkage.

The fee process, I think it has been talked about this afternoon, Chairman. I am not sure I need to go into any length there. There is a great deal of concern. The problem with multiple ownership, as we talked about the issue of cross-county types of situations, all of this does create a great deal of concern, and certainly it needs to be addressed. How we do that, I am not sure that anyone has the answers at this point, but certainly it should be addressed.

We need to take into consideration—and I don't know if this has been fully addressed this afternoon—significant planning issue, the multiple crops and the changes in plans. For those farmers that do plant a number of different crops and that have specific deadlines to apply for that, plans may have to be changed later, and I am not sure that at this point we have the proper type of process in place, you know, to take care of that type of thing. Weather and other things do change the plans for farmers.

There are other areas that I think we could work at, but probably the bottom line in all of this, if we are going to really get participation by farmers, then we need to do the things that will simplify the whole program. For those farmers that have been in the program, have bought Federal crop insurance in the past, this has not been a great change. As I indicated earlier, I have been in the program, and it is no problem for me this year. But for those again this year that feel the need now to apply or who have to because of the mandatory point, it has been a tremendous amount of paperwork that they have to go through. Certainly, farmers don't need more paperwork.

Just let me summarize once very quickly by saying that I think it is pretty evident that CFSA and the private sector have made a strong effort to put this program in place, to get things moving. We simply say that we need to change the thing; we need to simply, and, again, put the program in a place where it will, indeed, attract farmers' participation, because it is participation that is going to make this thing work.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Plagge appears at the conclusion of the hearing.]

Mr. EWING. Thank you.

Mr. Odom.

STATEMENT OF BOB ODOM, COMMISSIONER, LOUISIANA DEPARTMENT OF AGRICULTURE AND FORESTRY, FOR THE NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE

Mr. ODOM. Thank you, Mr. Chairman. Good afternoon, Mr. Chairman and members of the subcommittee. I am Bob Odom, Commissioner of the Louisiana Department of Agriculture and Forestry, and I appreciate the opportunity to appear before you today concerning the new Federal Crop Insurance Program.

The new program is being implemented for the 1995 crop season thanks to you and other Members of Congress who were instrumental in passing the Federal Crop Insurance Reform Act of 1994. I commend you for your actions last year and giving the farmer a much greater measure of achieving financial protection against unreasonable costs of loss through a reformed Crop Insurance Program.

I would like to also commend Ken Ackerman, manager of the Federal Crop Insurance Corporation, for his foresight and dedication to ensure that a program was in place for the 1995 crop season. Ken has been very responsive in trying to meet as many needs as possible during the first year of implementation, and I commend him for his effort.

My testimony today will be a Louisiana perspective as I see the program working in Louisiana.

During the year before the sign-up period, we had over 100 meetings in Louisiana between the Louisiana Farm Bureau, farmers, crop insurance people, extension service, in trying to make sure that our farmers were educated. CFSA has signed up over 1,300 policies in addition to sales that were made by the private insurance companies.

I have heard a lot of talk today on the sign-up procedure and additional crops that are being added and the charges that are being made, and all of that is very important. But in my opinion, the most important thing to make the Federal Crop Insurance Program a successful program and one that is actuarially sound is proper insurance adjustment, with quality inspectors. It is my opinion that this is still the weakest link in the program. In that, the adjusters for the private companies report to them, and the Federal adjusters report to CFSA. If a single pool of adjusters was available reporting to one supervisor, the program would be more uniformly handled, equal treatment would be received by farmers, and the programs would be made actuarially sound.

We in Louisiana are trying to put together a pilot program where we are allowing the county agent to be the adjuster in at least three parishes. They live there. They understand the circumstances, and they can make the decisions, and it is better for all of the farmers.

I want to see every farmer that has a dollar loss receive a dollar payment. But I do not want to see a farmer receive a dollar that does not have a dollar loss. Credibility is what is going to make the program work in the long run.

Other items that I see that need attention are as follows: Actual Production History, APH, yields are still somewhat confusing, and this needs to be clarified so that both the private and Federal sectors are handling them in the same manner. The method to determine APH yields should be uniform throughout the program. This will make it easier for farmers to understand.

It is my recommendation that APH yields be determined only by the CFSA, regardless of whether the farmer purchased the basic catastrophic level of crop insurance through the CFSA or private companies. This would ensure uniformity that is needed.

Spot-checking, oversight, accountability is a needed and a vital part of the program to make, again, as I said earlier, all adjusters accountable.

The non-insurance, the NAP program procedure must be developed soon to require that the producers of non-insurance crops report acreage and loss in a timely manner. This will ensure that we are not trying to administer a disaster program after it occurred.

In our area, broadcast soybeans should be eligible to practice in this State and any other State that used this planting practice since large acres of beans are planted in this manner. Currently, only soybeans that are drill planted are covered. In many parts of our State, the best planting practice is to plant beans on a broadcast rather than a drill, and this should be an insurable crop.

Specialty crops should continue to be added as insurable crops for catastrophic insurance coverage in as many parishes, counties,

as possible, as soon as possible, in order to provide better protection for disaster on an individual basis.

Lastly, several farmers in Louisiana have received letters from the Federal Crop Insurance Corporation initiating disbarment proceedings. We need to know immediately the impact of these proposed disbarments. If these farmers are ineligible for crop insurance, then immediately the CFSA office, lending institution, seed and fertilizer dealers, and land owners need to be notified that they are ineligible, therefore making them ineligible to participate in any of the commodity programs.

Overall, the coordinated work and effort in Louisiana has been good. The program must succeed in order to assure farmers they have some type of financial protection in the event of a major national disaster. It is very important that the program be credible since many critics will be watching to determine the success or failure of this program, which could in turn impact your ability to write a successful farm bill this year.

Mr. Chairman, I thank you for the opportunity of participating this afternoon.

[The prepared statement of Mr. Odom appears at the conclusion of the hearing.]

Mr. EWING. Thank you, Mr. Odom.

First question to Mr. Plagge. When you mentioned about the farm bill not supporting the mandatory part of the program, did they have a suggestion as to how we would encourage the many, many producers out there who didn't carry crop insurance to take at least the catastrophic portion of it if we didn't mandate it?

Mr. PLAGGE. I think what we are dealing with here is just what you said: How do you get people to participate? But one of the things, as I indicated in the testimony, that has really created the problem over the year, the lack of participation, was the fact that farmers felt if I don't participate and there is a problem, there will be an ad hoc disaster program.

So I think what has to happen there is that farmers do have to come to the realization that that day is over; they have to take it upon themselves that it is the individual's responsibility to do those things that will create the risk management tools in his or her operation to go forth.

This is not an issue that has just come before the American Farm Bureau delegate body one year, but it has been there for a long time. It is just the simple fact that there are people that, candidly, do not need to cover themselves. But due to the fact that we have had these disaster programs, we haven't had participation, sir.

Mr. EWING. You mentioned that you did support the catastrophic and that while you preferred it not to be mandatory, you did support it, and you thought that the buy-up should be done by the private sector, which is the way it is done.

You understand, of course, that the buy-up is a subsidized buy-up. What is your organization's position on that?

Mr. PLAGGE. I don't know if I can fully answer the question, but I would just say that if I don't to your satisfaction, we will certainly submit a statement. But we do need a program whereby there is a risk management tool available out there. And as we go through

this process, there is probably going to be some subsidization through this process, for a time at least. But in the end, you know, it should be an actuarially sound program.

Sir, if that doesn't fully answer your question, why, I would be more than happy to submit a written statement in answer to that question.

Mr. EWING. The area that I represent in central Illinois, many producers there were not normally purchasers of Federal crop insurance. But under the new program where they can insure not the county yield but their actual yield if they have records, wouldn't you submit that almost every producer could have a 25-percent loss from their proven yield? And they can do that today. They can insure up to 75 percent and hopefully in the near future to 85 percent, and that would almost eliminate those who say I never have the opportunity to collect on this?

Mr. PLAGGE. Well, you know, what we need to remember always is that you dare not develop a program where it becomes more profitable not to have a crop than to have a crop. So we need to always remember that one.

I think the program that is in place, the basics of it, is what we need in American agriculture. There are just simply some things in there that need to be corrected: the mandatory linkage, the amount of paperwork that, candidly, is scaring off those new people that really do maybe sense a need to participate but the amount of paperwork involved is just scaring them off, sir.

Mr. EWING. Thank you very much.

Mr. Pastor.

Mr. PASTOR. Mr. Chairman, I have no questions.

Mr. EWING. Mr. Doolittle.

Mr. DOOLITTLE. I have no questions.

Mr. EWING. Mrs. Thurman.

Mrs. THURMAN. I am interested in your suggestion number 7 where you talk about fruit and vegetable operation and consecutive years, as I think has been proposed, as compared to consecutive crop plantings. Could you give me your reason for that suggestion?

Mr. PLAGGE. I want to check on this.

Mrs. THURMAN. It is number 7.

Mr. PLAGGE. Again, you know, I am from Iowa, and I am not involved with these crops.

Mrs. THURMAN. That is what I was worried about.

Mr. PLAGGE. This is obviously going to be one of those that I am going to ask our staff to give you a written answer to that question. I have some staff people in the room, and we will do that.

Mrs. THURMAN. Then let me make sure that I understand this. This is really coming from Iowa's Farm Bureau, not necessarily—

Mr. PLAGGE. No, it is the American Farm Bureau, but I am president of the Iowa Farm Bureau, and a member of the American Farm Bureau Board of Directors. So this is coming from the perspective of the American Farm Bureau Federation. I think as we sat here this afternoon, you can quickly understand—gain an understanding of the diversity of American agriculture and certainly the complexity that develops when you try to develop a crop insurance plan. And we understand that. We certainly understand that.

What we are saying is that we need to continue to work to simplify the program whereby it will be attractive to those people. But we will get you an answer to your question.

Mrs. THURMAN. I would appreciate it, and I also do appreciate your understanding that this is a very diverse country and within agriculture. Quite honestly, I have felt, until last year when we finally did get some things in the crop insurance, that there were a lot of specialty crops in areas that were kind of left out and kind of hanging. So that is why I was kind of interested in knowing what your reason was behind that.

I appreciate both of you being here today. Thank you.

Mr. EWING. Thank you, Mr. Odom and Mr. Plagge, for your testimony. We appreciate your coming and participating.

Mr. EWING. We will now move on to our third panel, and if they would come forward. Mr. Rod Gangwish, president of the National Corn Growers Association, and he will be representing American Soybean Association, National Association of Wheat Growers, and the National Cotton Council. That is quite a task right there, but we welcome you. And we have Mr. Richard Nutter, Agricultural Commissioner from California; Mr. Marshall Coyle, chairman of the Kentucky Farm Bureau Tobacco Advisory Committee; and Mr. Jimmy West, vice president of the Texas Grain Sorghum Producers and the National Grain Sorghum Producers.

I would like to recognize two of my fellow committee members, Mr. Farr first for some comments and recognition of one of his members.

Mr. FARR. Thank you very much, Mr. Chairman. I appreciate the quick opportunity to introduce to the committee one of the witnesses, Mr. Richard Nutter, the Agriculture Commissioner from Monterey County, California. He is probably considered in California as one of the deans of Agriculture Commissioners and has long been involved with specialty crops in Monterey County, which we consider probably the most productive coastal growing region in the world. We have \$2.4 billion worth of specialty crop agriculture, none of which is subsidized. There is no Federal water; there is no Federal set-asides. Unfortunately, when there is a disaster, we need some Federal help, and that is why he is here today.

Thank you.

Mr. EWING. Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

One of the biggest topics of discussion, as I said earlier, for me when I go home to the 2nd District of Kentucky in these recent months has been the Federal Crop Insurance Act. Farmers in my district are disgruntled and disgusted with the unfairness of this act. The fact that a small farmer with 1,000 pounds of tobacco, with potential gross sales of \$1,700, has to pay the same administrative fee, \$50 per crop, as a farmer with 2,000 acres of corn and potential gross sales of over half a million dollars is simply unfair.

In many cases, that is compounded by the fact that several producers may share in a tobacco crop, and each has to pay the \$50 administrative fee. I don't have time to go into all the other complaints that I have received on crop insurance in the past month, but early deadlines, mandatory linkage, and others make the list.

Today I am honored to have from Kentucky Mr. Marshall Coyle. Mr. Coyle serves as 2nd vice president of the Kentucky Farm Bureau Federation and as chairman of its Tobacco Advisory Committee. He is active in a number of tobacco organizations and currently sits on the Board of Directors of the Burley and Dark Leaf Tobacco Export Association.

Mr. Coyle is a Bath County, Kentucky, farmer and today represents Kentucky farmers with his testimony on the problems with crop insurance. He is from my good friend, Scotty Baesler's district. Thank you.

Mr. EWING. Mr. Gangwish, do you want to proceed with your testimony?

STATEMENT OF ROD GANGWISH, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, ON BEHALF OF AMERICAN SOYBEAN ASSOCIATION, NATIONAL ASSOCIATION OF WHEAT GROWERS, NATIONAL CORN GROWERS ASSOCIATION, NATIONAL COTTON COUNCIL, AND USA RICE FEDERATION

Mr. GANGWISH. Thank you and good afternoon. I am Rod Gangwish, President of the National Corn Growers Association. I am from Shelton, Nebraska, and that is in the center part of the State. I am a farmer and grow corn, soybeans, and alfalfa, and I have been a crop insurance customer for 15 years.

Today, as the chairman said, I am here representing NCGA, the American Soybean Association, the National Association of Wheat Growers, the National Cotton Council, and the USA Rice Federation. We appreciate this opportunity to comment on the crop insurance program.

Our organizations support crop insurance reform as a means to lower premium rates and make crop insurance more affordable to our members. For instance, on my farm, premiums for corn are 15 percent lower this year than last year. The trade-offs came in the elimination of ad hoc disaster assistance and the linkage with farm program benefits. We continue to support reform as the best long-term solution to protect farmers from weather-related crop losses.

We have worked closely with the risk management and farm program divisions of the Consolidated Farm Service Agency to implement this new program. We all recognized it was essential to reach as many farmers as possible with good information before program sign-up began. We realized that problems were inevitable during the first year, and although none of our organizations can claim total satisfaction, we have found CFSA to be helpful and willing to work with us to find solutions to our members' problems.

One of the hallmarks of reform has been the reliance on actual production history, or APH, for catastrophic coverage. However, it takes a tremendous amount of time and effort to compile accurate production records for every crop and every farming operation. We expect this first year to be the most frustrating for farmers, for the county CFSA personnel, and for crop insurance agents. The problem should diminish next year when most of the records should only have to be updated.

The biggest concern for our organizations was the early sales closing dates. In some areas, by the time farm program sign-up began, the crop insurance sales closing dates would have passed.

We were concerned that if farmers were made ineligible for farm programs because they had missed an earlier crop insurance deadline that the reform would have to be dismantled before it even began.

To address this concern, risk management established a late application procedure for catastrophic coverage through the last day of farm program sign-up. We had requested even greater leniency to extend the sales closing date for buy-up policies to compensate for the delays in getting information about the new program to farmers, but we are satisfied that the late application procedure will enable most participants to remain eligible for farm program benefits.

We would encourage risk management to review all sales closing dates in order to establish dates that are realistic for each crop in each area. In some areas, sales closing dates fall well before planting dates, while in other areas planting would usually be completed before the sales closing date. For example, Texas and Montana have the same winter wheat closing date of April 28th, while the Texas harvest is only a matter of a few weeks away and the Montana winter wheat is only beginning to emerge from the ground.

Farmers want a rational and equitable system. If current law is too restrictive to correct discrepancies, then Congress should act to correct the problems.

We have heard much today about the linkage issue, and I will omit from my comments any additional comments on linkage, on size of tracts, spanning of counties, and multiple ownership since my testimony is in a printed form.

There is an additional linkage problem, however, that arises when producers decide to add a crop after the sales closing date. Producers need the flexibility to take advantage of every cropping opportunity such as double-cropping and prevented planting. A farmer who takes advantage of favorable weather to produce wheat behind a cotton crop should not lose cotton program benefits just because the wheat is not insured.

Further, wheat producers cannot choose if they will plant an alternative spring crop, such as sunflowers, dryland corn, or proso millet, until they see if the spring moisture will be adequate to germinate the crop.

The producer needs to have the ability to sign up for a spring crop and designate which crop will be produced at the normal certification date. A farmer who is prevented from planting the intended crop should not be discouraged from planting an alternative crop that is not insured.

The regulations to implement linkage must allow producers to make the cropping decisions that enable them to derive the greatest profit from their farming operations. One of the continuing frustrations with crop insurance has been the annual battle to establish the market price election that accurately reflects expected harvest prices. The current system relies more on projected seasonal average prices than on futures markets or historical spot market prices. Risk management should explore the possibility of offering market value protection as the market price election. If a solution that is fair to producers cannot be found, Congress should intervene and establish the criteria to set the market price election.

Although a 4-year APH eliminates much of the need for T-yields, these yields will be used when the producer does not have records, for example, when land is added as a new unit or when the insured crop was rotated off the unit and the producer does not have records for 4 years when the crop was grown on that land.

In the case of corn, a T-yield is computed by multiplying the corn program yield times a T factor, often 90 percent. Because program yields have been frozen since 1985, 90 percent of those yields is a ridiculously low yield for most corn farmers. We believe that risk management can establish transitional yields that more accurately reflect expected yields and that will not jeopardize actuarial soundness.

Thank you for giving us the opportunity to testify on behalf of the American farmers, and I would entertain any questions at the proper time.

[The prepared statement of Mr. Gangwish appears at the conclusion of the hearing.]

Mr. EWING. Thank you very much.

Mr. Nutter.

STATEMENT OF RICHARD W. NUTTER, AGRICULTURAL COMMISSIONER, MONTEREY COUNTY, CA

Mr. NUTTER. Thank you, Mr. Chairman.

I would like to thank Mr. Farr for arranging my trip here today so that I could speak on behalf of the specialty crop growers from Monterey County.

I think we are looking at three segments of specialty crops. We have row crops which specifically deal with primarily vegetable crops; we have strawberries which, obviously, are different; and then we have the nursery crops which are grown inside of greenhouses.

I think this part of our agricultural economy has never been recognized in the past, and I think the way that we have approached our farm bill has not really been to look at specialty crops and see exactly how important they are to our economy and to our various areas.

I would like to thank Bill Murphy and Vivian Sopha from the USDA for their efforts in trying to deal with the NAP issue and this disaster in Monterey County. But I think that there is a lot of frustration in our area with our area growers, and I think Mr. Farr and other legislators, and Mr. Panetta and such, can agree with that because they have seen it firsthand.

I think the 15 percent which they mentioned being covered in the county, I think that is a little light. There are many growers who still have not responded because either they haven't evaluated their entire losses or maybe they are not going to at all.

There is a segment in our economy that has the ability to facilitate loans through the local financial institutions, but there are some who cannot do that because they do not have the financial backing.

I would like to review just a few of my comments because I think they are pretty important in dealing with and looking at the financial \$2 million cap for your committee when you make a decision.

I would like to just point out that Monterey County is the leading vegetable crop-producing county in the Nation. We also rank number 4 in total agricultural production in the United States. Looking at some of the major crops that have been affected by this flood, we are looking at 8,000 acres of artichokes; we produce 50,000 acres of broccoli, 25,000 acres of cauliflower, 100,000 acres of head and leaf lettuce, about 4,000 acres of spinach, and another 8,000 acres of strawberries. We lead the Nation in production of those commodities.

In addition, we are in the top three in production of asparagus, brussels sprouts, carrots, celery, cut flowers and foliage, and garlic. And during the summer months, we produce between 40 and 80 percent of the Nation's product, vegetable products.

I think it is very critical that we are able to respond to this disaster, not only because of the local growers who are impacted and the workers who are impacted, but the Nation's food supply is also impacted by this disaster.

We generally produce over \$2 billion worth of agriculture annually, and, of course, there is a multiplication factor throughout our entire economy. And since we are a major exporter, we are exporting to all points around the world, and we have seen an impact through the ripple effect of our losses in the foreign markets.

Essentially, we are concerned about the ability of these growers to respond to this loss. Our preliminary losses have been estimated over \$240 million just in Monterey County alone. That includes damage of one degree or another of \$41,000 in actual acreage affected and other values that have not been estimated yet in agricultural infrastructure, like pipe and pumps and buildings and that sort of thing.

I think you have to look at and try to determine whether you are going to have a \$2 million cap, is actually what would it cost to grow some of these crops. Head lettuce, for instance, it costs \$2,000 per acre to get one acre of lettuce up to the production point. Strawberries, they have \$10,000 to \$12,000 in that acre of strawberries before they harvest a berry.

It has been estimated that you need to produce more than \$48,000 worth of income before you start making a profit on strawberries. So I think you can see that this is highly capital intensive and also labor intensive, and it is necessary that we try to find some aid for these individuals who have not had it previously.

We are also concerned about areas in the NAP that deal with the limited coverage in the 35 percent loss of production. We are pleased to see that there is ability to work out some coverage for the greenhouse growers who had heavy silting and water damage in their greenhouses.

The other that we think really needs some clarification is the term "area," and I believe that is being worked on at this time. One other point that came up during the previous testimony, when you talked about seed crops, you cannot have any of these crops unless you plant a seed. The value of the seed crops, now they are charging by the thousand, so many dollars per thousand seeds. It is not by the pound any more. Crop seed is very expensive, and I think to give some real consideration to adding crop seed to some of these programs.

That concludes my comments and I would be pleased to answer any questions you might have.

[The prepared statement of Mr. Nutter appears at the conclusion of the hearing.]

Mr. EWING. Mr. Marshall Coyle.

**STATEMENT OF MARSHALL COYLE, CHAIRMAN, KENTUCKY
FARM BUREAU TOBACCO ADVISORY COMMITTEE**

Mr. COYLE. Thank you, Mr. Chairman and members of the committee. I certainly appreciate having the opportunity to be here and share some views from some of the Kentucky tobacco farmers concerning crop insurance.

Let me just say that this is quite a new thing to the farmers in the State of Kentucky. I guess you could say that we have known in the back of our minds that if we were not covered in the past and there was a big disaster, we could pretty well depend upon some sort of a disaster bailout by the Federal Government.

As we look at it in a different way and a different approach to this program, it has taken some adjustment on the part of farmers. I think the CFSA has done an excellent job in Kentucky in communicating to the farmers the changes and what they had to do with crop insurance. We in the Farm Bureau have done the same over the last several months in helping communicate to our membership what they had to do as far as crop insurance was concerned to be able to participate in government programs this year.

I think that with a few minor changes, we could make the crop insurance program work a lot better, particularly for tobacco farmers in the State of Kentucky. Since we look to 1996, I think if we could look at moving the purchase deadline up to July 1, instead of March 15, on March 15 we have not sewed our beds and a lot still do not know exactly what we will be raising in the way of acreage. We have until July 1 to lease tobacco quotas, and that would give us a much better opportunity to be able to match our acreage to the crop insurance that we would need, if it could be July 1.

If we could deduct the \$50 administration fee upon sale, we already have deductions. The warehouse is already set up to make deductions. We take deductions for the no-neck cost fund. USDA is familiar with and so is the grower, so that seems to be a viable thing to look at, would be deducting that \$50 administrative fee when the crop is sold. I think it has been mentioned here by Congressman Lewis, and that would be a graduated fee based on the average.

We have a lot of small producers in the State of Kentucky. In fact, our average tobacco base in Kentucky is 2,500 pounds. Yes, we have a lot of growers that are producing 40 to 50 acres, but it is hard for us to realize that you would pay the same fee if you are a 50-acre producer as if you are an acre-producer of tobacco. So we would hope that is something that could be looked at.

In tobacco, we have a lot of different shareholders many times in the farm, and on the larger farm we have a lot of sharecrops, in fact, on some farms. So we would hope that we could look at coverage by farm, rather than by producer. I think it has been mentioned here today before, maybe we could look at whoever's name

that is marketing card is in would be the one that would be required to carry the crop insurance.

We think that the basic ideas of the crop insurance are very sound, and we think that it has a lot of attractive features for the farmers. We feel if you will look at some of these changes for the 1996 program, that we can make this thing work for years to come for the betterment of the growers, as well as for the government.

I do appreciate the opportunity to be here. You have some written testimony that goes into a lot more detail. I would look forward to entertaining any questions that you might have.

Thank you.

[The prepared statement of Mr. Coyle appears at the conclusion of the hearing.]

Mr. EWING. Thank you very much.

Mr. West.

STATEMENT OF JIMMY WEST, VICE PRESIDENT, TEXAS GRAIN SORGHUM PRODUCERS, FOR THE NATIONAL GRAIN SORGHUM PRODUCERS

Mr. WEST. Chairman Ewing and members of the committee, I would like to thank you for the opportunity to appear here today on behalf of the National Grain Sorghum Producers.

I am a farmer and rancher from Roxton, Texas. Roxton is approximately 90 miles northeast of Dallas. I normally grow 1,400 acres of fall planted wheat, 500 acres of sorghum, 300 acres of corn, and raise purebred Beefmaster cattle.

For the past 8 years, I have purchased multi-Federal crop insurance and have participated in the acreage reduction programs. I was glad to hear that the crop insurance would be upgraded to replace the need for ad hoc disaster programs. This seems to be a way of getting more coverage at a lower cost, which would be more beneficial to the farmers in my area.

This year's policy is different from past years, because it automatically covers late planting and preventive planting of crops. When I purchased upgraded insurance, I was told that preventive planting and failed crop acres would be eligible to participate in the farm program or be allowed to plant a gross crop, a crop not eligible for USDA benefits on effective crop acres.

Disaster programs in the past years had allowed producers with failed crop acres to receive a crop insurance indemnity payment, participate in farm programs and receive a disaster payment. Also, failed crop acres could be planted to a ghost crop. This year, I took out the maximum crop coverage, as has been my past history on all my crops. I will pay a premium for four crop specific policies covering wheat, corn, sorghum and soybeans.

Again, crop specific preventive planting and failed crop acreage coverage is automatically included and not optional. I fully believe I was paying for a policy that would pay for losses if I were preventing from planting a specific crop in a crop year, without jeopardizing program participation. I purchased crop insurance to reduce my risk, to participate in farm programs and get crop financing.

In the fall of 1994, I was preparing to plant 1,400 acres of wheat. I had prepared and fertilized 1,450 acres and started planting on

October 8, 1994. On October 10, it started to rain. I had managed to get 160 acres planted, but the fields were very wet and I could not move the drill out of the field until March 15th of 1995. My expenses for the 1,400 acres, including rent, were \$104,130. Assuming that my 160 acres that I planted makes an average crop, I project that will receive \$22,528.

I am told that if I accept the preventive planting indemnity payment of approximately \$37,000, I will not be eligible to participate in the USDA farm program 0-92 or plant a ghost crop on the preventive acres, thereby resulting in a loss of \$44,402. That loss will be locked in, because I am not allowed to plant or graze the preventive planting acres. I really do not understand.

One of the reasons I purchased crop insurance was to be eligible to participate in USDA farm programs for the 1995 year. The only way the consolidated farm service agency will allow me to participate in 0-92 or plant a ghost crop on my preventive planting acres is to agree not to accept my insurance indemnity payment. I signed up for that insurance to reduce my risk and provide a safety net for my operation. Now I am being deprived of my benefits.

If my planted acres fail, which is possible due to the flooded field conditions and continued rain, I will be allowed to receive my insurance indemnity of 160 acres, receive a regular deficiency payment of 85 percent of the planted acres and have the option of planting a crop.

In this same line, if conditions are more favorable and we have early harvest, we normally double crop this wheat anyway with either sorghum or soybeans and possible sunflowers. Again, I do not understand. I felt the crop insurance in the Farm Act of 1994 mandated equal program benefits for failed crop acres and preventive planning crop acres.

I agree that a lower indemnity payment should go to the preventive planning crop, but those crop acres should be allowed to participate in the farm program or be planted to a ghost crop. We the farmers of Northeast Texas need your help. We do not believe Congress would force a loss on the farmers. We ask you to review the policies of CFSA and not lock us into a loss when we have the capability to break even or make a small profit.

Thank you, Mr. Chairman. I will be glad to answer any questions you may have.

[The prepared statement of Mr. West appears at the conclusion of the hearing.]

Mr. EWING. Thank you very much.

Mr. Ackerman, do you want to come up and sit at the table?

Mr. ACKERMAN. Yes, sir.

Mr. EWING. I guess my first question would be how does Mr. West's problem fit into our crop insurance, and can they be helped.

Mr. ACKERMAN. Yes, this is a situation that we have been looking at. Yes, Mr. West is pointing out a situation which is basically an anomaly that came to light this year. It is a difference between how failed acres are treated under our crop insurance policies versus how preventive planted acres are treated under the policies.

Essentially, the problem is that the preventive planted coverage requires for a payment that a farmer be prevented from planting for the crop year, and in many cases that policy term runs against

what is common farming practice. This is something which we are looking to change for 1996, because, as we reviewed the situation, Mr. West has a point and it is something that we are going to look to change in the future. It is a difference.

The problem is the terms of the crop insurance policy. To some extent, there is a legal question about the interplay between crop insurance and the 0-92/0-85 program. So primarily these are policy terms that we are going to be reviewing for 1996, because we think there is a valid point here.

Mr. EWING. Does that require legislative change or by rule?

Mr. ACKERMAN. We think we can do this administratively. If it turns out that is not the case, we will let the subcommittee know.

Mr. EWING. Not to eliminate you, Mr. West, but I think maybe I would know your answer. To the other three panelists, I would ask the question, generally, do you think the producers in your particular areas and in your organizations are fairly satisfied that we are making progress with the new Federal crop insurance reform program?

Mr. COYLE. I think we in Kentucky feel like you have made a lot of progress, and we think as we go on through the process, realizing this is very new and there are some things that need to be looked at that we have addressed and some others that have been addressed. We think if you will do those, that you are on a positive step with this program.

Mr. GANGWISH. I would agree. Speaking I guess maybe from the standpoint of some of my neighbors in rural Nebraska, as well as the National Corn Growers Association, I think that, by and large, we are satisfied with a lot of the reforms that have been made. To reiterate what my friend on my left said, we have highlighted and in some cases duplicated some things here that need to be addressed, as well. If we can get some of those things taken care of, I think we are well on the road to something that can be a viable part of American agriculture.

I would just mention that I had almost the same situation as my friend here, the sorghum producer, had two years ago. In Nebraska, we had a late frost and I had a number of acres that were frozen out, and we were faced with that situation. Of course, we were still able to get the deficiency payment and we planted soybeans behind the corn and we were able to get a crop. The crop insurance payment and the failed crop and all of the things combined were not as good as had we had a normal crop, but it came very close to making us whole. So this is a serious concern that I personally have, as well, because it can happen.

Mr. NUTTER. I might say just for the specialty crop group, I do not think there has been a great deal of interest in past years. Maybe two or three years ago is when they first were making a presence in the area and offering this type of insurance. I think most vegetable crop people and some of the other specialties would rather rise and fall on their own efforts.

But when you have a situation that has happened so totally devastating, where you not only lose your crop, but you lose your land and you lose your house and that sort of thing, I think there is a need for a level playing field and for some coverage there. I am not sure how that all works out in the political arena or bureaucratic

arena, but something really needs to be done to deal with this type of an issue.

Mr. EWING. Mr. Nutter, when you have such very valuable crops, very high value per acre, would you not anticipate that the cost of that insurance is going to have to be quite high per acre, also?

Mr. NUTTER. I believe it would. As I say, I do not know how you structure this, but I could almost see it in two different areas. You have got a group of people who are capable of financing their own way. They have got bankers who will commit to keep backing them, because they have got a track record. You have got another group of people that might be minority groups or others that are not as well financed whose losses are probably multiplied, because they do not have any way to recoup that. As I say, I do not know you would really structure something like that, but it would be something to look at possibly.

Mr. EWING. Do you think generally those producers are going to be interested in the mandatory program?

Mr. NUTTER. That is difficult to say, and they probably would not. So that is another problem.

Mr. EWING. Partly because of the high cost?

Mr. NUTTER. That is right. It is supply and demand and market situation sometimes. It is very difficult even making a profit on some of these commodities.

Mr. EWING. Thank you very much.

Mr. PASTER.

Mr. PASTER. No questions, Mr. Chairman.

Mr. EWING. Mr. Lewis.

Mr. LEWIS. Thank you.

Mr. COYLE, I just wanted to ask if you are hearing a lot of complaints about mandatory linkage.

Mr. COYLE. Yes, there is some out there, Congressman Lewis, and I think maybe that is something that you need to look at. Overall, I think farmers have got to understand, if there is going to be no more disaster programs, the farmer is going to be have to be in the position to provide for his own keeping, and I think that is a very important thing we have got to get over to the farmer.

Mr. LEWIS. The recommendations that you have made here, I think they are very good and I think if we can follow through on them, that we are going to get real good acceptance from the farmers in Kentucky. I appreciate your recommendations.

Thank you.

Mr. COYLE. Thank you, Congressman.

Mr. EWING. Mr. Farr.

Mr. FARR. Thank you, Mr. Chairman.

One comment and a question. The comment, Mr. Chairman, is I think it is too bad that we just have one sort of disaster insurance before us, because really what the Nation needs to look at is how you can have a disaster insurance that covers everybody, so that you can rely on the private sector market, rather than the government, to bail us out of these disasters.

On the other hand, we need a program that is there when nothing else fits, and I think that is what I am talking about today. We have people who are in need of help. Because they are in farming and because they have grossed more than \$2 million, they are out

and they may have lost everything. This is it. They are the kinds of people who have normally been able to go to the bank and the bank has been there for them. But they have lost so much, including the soil.

Mr. Ackerman, I appeal to you. I am going to introduce some legislation to give the Secretary some discretionary powers, because I think that the whole reason we are here today is to talk about how you help people when insurance triggers, and insurance triggers when there has been an economic disasters. Yet, through all the years we have designed these programs, and in the first instance we have a disaster, these 100- to 500-year floods, we cannot help people because they are just doing the wrong thing: they are growing crops without any help from anybody and those crops are high-value crops.

I guess I get back to Mr. Nutter, how do we help these people and how many growers do you think are going to fall into that category.

Mr. NUTTER. Well, it is difficult to say, because, as I mentioned, people are still assessing some of the damage. Our old-established growers are going to be able to carry on, most of them, but there are the immigrants, the Hispanic people who have come here and established themselves and bought a home and are employers of workers that do not know what to do. Everything they had was in that crop, and in some instances their house was gone.

Mr. FARR. And they are grossing more than \$2 million.

Mr. NUTTER. They are grossing more than \$2 million.

Mr. FARR. And they are not wealthy people.

Mr. NUTTER. That is right. So I do not know how you do that. Maybe Mr. Ackerman has some way of addressing that issue, maybe not.

Mr. FARR. I will yield to Mr. Ackerman.

Mr. ACKERMAN. For purposes of today, all I can do is assure you that we will continue to work with you and think through this issue to see if we can find a way that works that we can deliver on.

Mr. NUTTER. I might suggest that you have a member of your staff that is a specialty crop person, that we could work with him or her and see how we could maybe come up with a solution.

Mr. ACKERMAN. That is correct. We have been working very closely through our Sacramento Regional Office to keep in touch with this situation specifically.

Mr. FARR. Do you know the person especially that would be out in Sacramento, or is that here in Washington?

Mr. ACKERMAN. The specialty crops coordinator is located in Kansas City. His role is to look at the non-program crops, the non-insurable crops in terms of which ones can be brought into the insurance program over time.

As far as looking specifically at the California situation, our point has been through our Sacramento Regional Office so far.

Mr. FARR. And that is the gentleman right behind you?

Mr. ACKERMAN. Yes, that is Mr. Murphy.

Mr. NUTTER. He has had a presence in the county and he knows the area well, so perhaps he can help us.

Mr. FARR. Can you give him a lot of administrative discretion?

Mr. ACKERMAN. We confer very frequently. We will be working very closely with Mr. Murphy and with all parties on this. I can assure you that the department and the administration are very committed to try and come up with a workable solution on this.

Mr. FARR. Thank you. I yield back the remainder of my time.

Mr. EWING. I want to thank the panel. I appreciate your input. We look forward to trying to improve this program and your continued interest is very important.

Thank you very much.

Mr. EWING. We will ask the fourth panel to come forward: Ms. Debra Dawson, chairman of the American Association of Crop Insurers; Mr. Ron Miiller, Vice president of Crop Growers Insurance, Inc.; Mr. J. Rives Manning, president of Halifax Farmers Insurance Services; Mr. Robert Parkerson, president of National Crop Insurance Services; and Ms. Sharon Heaton, vice president of the National Association of Professional Insurance Agents.

I want to welcome our last panel for this hearing and take a prerogative of the Chair to mention that Sharon Heaton is from the 15th Congressional District in Illinois and somebody that I rely very heavily on for information about this program and other insurance issues, and I am really very pleased that she could come out and take part in our hearings today.

I am also going to start with her on the testimony, because I may have to leave just a little before the hearing might get over, and Mr. Lewis will conduct the hearing at that point. But I wanted to be sure and be here for your testimony, Sharon, so we will start with you.

STATEMENT OF SHARON K. HEATON, VICE PRESIDENT, NATIONAL ASSOCIATION OF PROFESSIONAL INSURANCE AGENTS

Ms. HEATON. Thank you, Mr. Chairman.

Mr. Chairman and other members of the subcommittee, first of all, on behalf of the National Association of Professional Insurance Agents, I would like to thank you for allowing us to be here today to testify.

Just to give you a little background, the National Association of PIA is a trade association group. It consists of approximately 180,000 independent agents, brokers and their staffs throughout the United States. As already was mentioned, I am currently serving as vice president of the national association and also on the Crop Insurance Task Force, but I am bringing the comments from the total membership of our affiliates.

One thing, I want to give you a little background on myself, also. As Mr. Ewing said, I am from a rural community. I grew up on a farm, owned farms, live on a farm and insure a lot of farmers, so I have been around this program quite a bit.

First of all, we want to congratulate Congress on the crop reform. We think it is moving in the right direction. There are some areas that need to be tied down, just as we have talked today. The NAP program is one that we have even run into our area that we need to tie down, and also trying to get crops approved for insurance on an individual basis.

Before I go on, I just want to mention—everybody has my written testimony—I just want to highlight some areas, because I know this is going longer than a lot of people wanted today.

One thing that we all know is there has been a lot of confusion on the dates on this program. When the dates were extended for the CAT coverage but not for the buy-up coverage, I think that even added more confusion, along with what was involved with the press. So we are very concerned about that and we think it is very important that the dates be coordinated with the dates for the sign-up programs through the CFSA offices for the farm programs. I think that would help the farmer tremendously in understanding the program.

Another area that there has been a lot of confusion that agents throughout the United States have run into and we have heard about today, they do not believe there will not be ad hoc disaster payments. When they believe that and they see Congress follow through, then they are going to buy, they are going to participate in the program. So you have to stand firm.

One area we as independent agents have is our concern on how the CAT level coverage is sold. We are finding there is a difference between how it is sold by the independent agent versus how it is sold in the CFSA offices. We are always telling the farmer we need your past history, your actual production for the last 4 years to sign up for this program, so he can actually have coverage for 50 percent of his production. Then the farmer comes into our office after going to the CFSA office and they say they do not need my production, why do you need it, I want the same coverage.

What we are concerned about is what they are getting is the T-yield, that is substantially reduced coverage for the farmer. So we are very concerned about that.

That leads me into the next area. We feel that the crop insurance program should be totally administered by the private sector and independent agents. We are trained, we are certified and recertified every year in this program, and we know to handle it. We can handle it. We do not feel that government dollars should be spent on training government employees to sell insurance. Let it stay in the private sector.

We are convinced that crop insurance is an excellent risk management tool. When we have the opportunity to sit down with the farmer and explain the program to him, when he sees that he has the opportunity to insure his crops even up to 75 percent of his actual production, he is very enthused. He sees it as part of his management of the farm. It is just another expense on his crops. Sometimes it is not even a nickel a bushel, and he feels it is very important to have it.

In fact, I have had many farmers and agents throughout the United States ask why can I not go higher, I would like to be able to do 85 percent level, it is very important to me. The farmer sees it is a wonderful tool and he wants to use it, once he understands it.

I think the thing we need to remember is this is just going to take time. We have had a short amount of time this year. We need to have more time to educate the public. Most importantly, we all need to work together, the private sector, government, all of us

need to work together on this. We must be consistent. The farmers are always saying so that is the rule this year, what will it be next year. They want to see that we are going to be consistent on the program and, most important, we have to know what is going to be in the program as soon as possible. We cannot do this at the last minute like we did this year.

So if we now continue educating so that we have more people participate—and that is what our goal is. We want to have the farmer participate, we want to have them participate in the higher levels of coverage. That is how we all win.

Thank you very much for letting us participate in this. I welcome any questions.

[The prepared statement of Ms. Heaton appears at the conclusion of the hearing.]

Mr. EWING. Thank you, Sharon, for being here.

We will now recognize Mr. Pomeroy.

Mr. POMEROY. Mr. Chairman, I thank you. I have enjoyed participating in the hearing to the brief extent I was able. I have two Air Force bases in the State of North Dakota and the Base Closure Commission is coming out to look at both of them Thursday, so I have been somewhat distracted in the course of our afternoon.

Mr. EWING. Was there insurance for that [Laughter.]

Mr. POMEROY. Regrettably not, Mr. Chairman.

I do want to say a word about this hearing. I think that your leadership last session and the work of many of us to get the crop insurance reforms passed was extremely important in terms of maintaining a substantive meaningful risk management program for the farmers in a day, frankly, when disaster programs of old would not be forthcoming, in light of our present budget circumstances.

This panel has two graduates of the University of North Dakota on it, and I want to acknowledge Mr. Miiller, and particularly say a few words about Ms. Dawson. While I was serving as North Dakota's Insurance Commissioner, I worked very closely with her and found that she is one of the best minds on crop insurance anywhere in the country, and I am very proud that she represents the North Dakota domestic insurance companies. With that said, you are in for a distinguished panel, and I will go back to my uninsured base problem.

Thank you.

Mr. EWING. Thank you.

I would say we are little loaded towards North Dakota here on the list with two graduates, but we will handle that.

Mr. Parkerson.

STATEMENT OF ROBERT PARKERSON, PRESIDENT, NATIONAL CROP INSURANCE SERVICES

Mr. PARKERSON. Thank you.

On behalf of the members of the National Crop Insurance Organization, I want to express our thanks for the opportunity to testify before you today.

National Crops Insurance Services is a trade organization, and I think it probably important that in this time—and I know that we have the testimony that has been given earlier—but I want to

highlight a couple of important issues I think that Congress should know.

This industry supports National Crop Insurance Services, because it provides services and important information in providing crop risk management and crop insurance coverage. The data and information in providing policies, the training that goes into the agents and the adjusters that we work with, the universities that we support and study for, all of that goes into where the companies are providing and working hard to train their agents and to train the adjusters as they go forward.

I have heard some comments today about possibly meeting additional training. We think we can provide it, and there is a necessity for us to let you know the requirements that we need to have, not only from the FCIC, but we as an industry as a whole support that kind of training.

Given our 80 years of experience in the crop insurance industry, National Crop Insurance Services would like to talk to you briefly about what we think are three important things. One is consistency of this new program. We supported it last year. We support it, because we believe that it is the right thing to do, that there is an individual insurance policy for each farmer, and we believe that is important.

But consistency is the most important thing. We know that the farmers are having a difficult time understanding this program, because of the different types of communication that has been done, the dates have been changed. So consistency is important.

We would also like to talk about simplification, simplification of the applications, simplification of administering this program. Again, it is extremely important for the farmer to understand, so that we can bring about a fair and equitable benefit to everybody.

Also knowledge, the farmers who find themselves having to buy crop insurance for the first time need adequate information on the role that crop insurance can play in the overall risk management strategy. Farmers must be aware of the additional coverages provided by the private sector and the availability of it. We believe that this is important in administering this.

I believe that the scoring that was done last year was based on buyout, and not just CAT policies, not a NAT program, but the entire program. The outyears are based on the importance of the farmers buying and they are needed. We need those insurance agents out there conducting the appropriate interviews, being able to sit down with the farmers and deciding the right kind of risk management that they will need to protect themselves.

NCIS is in contact on a daily basis with FCIC, and we work with all the industry companies to provide some kind of liaison between industry and the government. We are trying to work on it. We know that we have had some problems. We are very aware that there would be problems, because of the shortness in time that this bill was implemented and the time that was allotted to try and get it out to the farmers.

I would also like to say that in continuing working with the Kansas City and Washington, D.C. FCIC offices, we have set up several task force programs where we can bring about these issues so that

we can talk them out, and we are willing to see FSA and FCIC on these issues.

We have been provided and we have been asked to provide quite a bit of analysis and statistical data for not only the congressional offices and members who are interested in this management, but also the FCIC, and we will be happy to continue to do that.

I know the time is short, but I do want to say that the industry is fully supportive of this program, but we do believe that its simplicity and continuation of a program without a lot of changes is very important, so that the farmer and the buyer of this insurance understands that program and there is not a continuing change.

Thank you, Mr. Chairman. I will be happy to answer questions. [The prepared statement of Mr. Parkerson appears at the conclusion of the hearing.]

Mr. EWING. Thank you.

Mr. Manning.

STATEMENT OF J. RIVES MANNING, PRESIDENT, HALIFAX FARMERS INSURANCE SERVICES, FOR THE INDEPENDENT INSURANCE AGENTS OF AMERICA

Mr. MANNING. Mr. Chairman and members of the subcommittee, my name is Rives Manning. I appreciate the opportunity to testify before you today regarding the Federal Crop Insurance Reform Act of 1994.

Before I start, I want to thank Mr. Ackerman and his department. I think they have done a good job with the time frame they had, but they probably had more to do than they could. So before I knock him down, I will build him up a little. [Laughter.]

My wife and I own and operate Halifax Farmers Insurance Service in Halifax, North Carolina. I have been writing Federal crop insurance and multiple-crop insurance since 1981. I have seen and been a part of many of the changes and improvements in the crop insurance program and have the gray hairs and many lack of them to prove it. I serve on the Crop Insurance Task Force of the Independent Insurance Agents of America as its Federal crop insurance representative.

As you know, IIAA was a vocal and strong supporter of the important crop insurance reform legislation passed last year by the House Agriculture Committee. In fact, insurance agents across the country made their collective voice heard to help enact a bill and fend off some opponents of the proposal.

By placing the needed funds on budget and eliminating ad hoc disaster payments, this committee built a crop insurance program that will work. The guiding promise to the public was that this new money, over a billion dollars a year, would be spent wisely and efficiently. However, we all understand that passage of legislation in Congress is just the beginning of a successful reform. We all understand that, far too often, implementation of a law can fall short of the will of Congress. In short, we think the reform should be given a chance to work without new budget cuts.

However, I would like to talk straight today about what is wrong with the program's implementation and where it can be improved. To date, IIAA believes that implementation of last year's Crop Insurance Act has fallen short, specifically in areas of minimizing pa-

perwork and maximizing private sector delivery of the crop insurance product.

IIAA believes that the combination of a late release of the new program's regulations, inconsistent farmer educational efforts and a stubbornness by FCIC and CFSA to abide by the spirit and black letter of the new crop insurance reform bill on the private sector delivery, and program simplification has left its success in jeopardy. Congress got it right with crop insurance reform last year, but perhaps the will of Congress needs to be made even more clear.

I will focus my comments on what I do for a living. I deliver and service crop insurance. Today, IIAA would like to take this opportunity to announce that it will do everything it can as an association, including supporting new legislation to get the government out of the delivery of crop insurance. The undeniable thrust of last year's crop bill was to bring an end to the costly and duplicate government delivery of Federal crop insurance and thus lower the government's cost to operate the program.

It is only logical to get as many farmers to cover their crops with an insurance product commensurate to their risk and to place the delivery of the crop insurance product in the sole hands of insurance professionals who understand farmers' exposure and can deliver the product the cheapest and have a financial stake in the satisfaction of the service provided to the customer.

At the end of the day, the CFSA official has little at stake in the quality of his insurance advice. Under this program, a CFSA official's only mission is to get the farmers signed up with crop insurance to satisfy linkage requirements for the USDA farm program.

As has been pointed out in the hearing today, the Department of Agriculture was permitted in the act to offer catastrophic risk coverage. At the option of the Secretary, that is based on considerations of need. Upon the lack of the presence of a private sector agents and companies, this direction has been entirely glossed over by USDA. USDA today has apparently decided that adequate private sector outlets for the crop insurance do not exist anywhere in this country.

Instead of using the Kerrey language to minimize government involvement as a way to save money on the duplicative costs, to maximize their role in the delivery of crop insurance, it is clear to me that the USDA has no intention of withdrawing from the delivery unless forced to do so. In fact, the record so far demonstrates that the opposite is true.

At a time when the administration is reinventing government, does it make sense to reinvent the wheel when it comes to delivering crop insurance? What sense does it make for the government to reinvent a private delivery system of over 20,000 insurance agents currently selling crop insurance? There has to be a better way.

Legislation should be passed this year to require that CFSA and FCIC withdraw entirely from the delivery of catastrophic risk protection except in special circumstances. For these special truly underserved counties, the Department of Agriculture should demonstrate a need by county for each CFSA office to be able to deliver catastrophic risk coverage.

In conclusion, as I said at the outset, I believe the act can work. I believe the implementation will be better next year, as information on the new program is disseminated. I also believe that it will never fulfill its potential, unless USDA gets serious about cutting red tape and maximizing private sector delivery.

Mr. Chairman, I realize my testimony today has an edge to it, but please know that independent agents have been a silent partner in this enterprise for too long. There comes a time when it is time to tell it like it is.

Thank you, sir. If I can answer any questions, I would be happy to.

[The prepared statement of Mr. Manning appears at the conclusion of the hearing.]

Mr. EWING. Thank you, Mr. Manning.

We will go now to Mr. Miiller.

STATEMENT OF RON MILLER, VICE PRESIDENT, CROP GROWERS INSURANCE, FOR THE CROP INSURANCE RESEARCH BUREAU, INC.

Mr. MILLER. Thank you, Mr. Chairman. I appreciate the opportunity to speak to you today about crop insurance reform. My name is Ron Miiller, and I am vice president of Crop Growers Insurance. We are one of the largest MPCIs in America today. And I am a member of CIRB's Governmental Affairs Committee.

The views that I present today are on behalf of the membership of Crop Insurance Research Bureau, a voluntary trade association made up of insurance companies, reinsurance companies and other individuals interested in crop insurance.

The late enactment of the reform bill has placed an unbelievable added burden on both the public and private sector in delivering crop insurance to the agricultural community today. The past several months are littered with all kinds of attempts and efforts on the part of FCIC, CFSA and the private sector to deliver and inform the public about the basic tenets of crop insurance and catastrophic coverage.

To everyone's credit, undertaking has resulted in a number of positive things and I would like to talk today about some of the positives, as well as the negatives. There is a great deal of confusion surrounding the rules and it is caused by a lack of procedure, late actuarial information and inadequate time for training.

What early information was disseminated to the public was often inadequate or incorrect. Frequent procedural revisions complicated the situation even further. CFSA personnel unfamiliar with crop insurance struggled to provide consistent correct information. The private sector and CFSA desperately need to continue to develop a strategy to make the benefits of crop insurance understood throughout America. However, we must work together to do this.

The educational outreach programs put together with great effort by CFSA could have been more efficiently delivered by utilizing private sector input. It takes a thorough knowledge of crop insurance to deliver a viable product to America's farmers.

There is a great deal of good news. Participation was a major factor in consideration of the reform act, and I am proud to say that

in some parts of the country participation is being reached at excellent levels.

One area, a very small area, the Bootheel of Missouri, basically a five-county area, currently has about 90 percent of the eligible acreage on the books for insurance purposes for 1995. This has resulted in over 2,000 new applications. It has resulted in additional staff being hired to handle the influx of business and thousands of dollars being returned to the agricultural communities through additional salaries and agents' commissions. We see reform working in this point in the area.

California has been discussed here a great deal. California has been a low participate State in the past, and many producers have felt that the current program as it existed was inadequate. I am happy to say that the CAT policy does have a great deal of appeal to producers in California and we have seen a tremendous amount of appeal in that area to producers in California. Unfortunately, again as has been discussed, a lot of the CAT policies are not purchased on the Monterey County area, and the crops that are grown there are not insurable. But in some of the other areas of California, it is working very, very well.

Congress expressed a great deal of concern over the delivery of this product, and I am proud to say that private insurance companies are stepping forward to meet this challenge. FCIC produced a list of 100 counties that they said were underserved. After reviewing the number of private insurance agents available in these counties, FCIC concluded that adequate service was available in almost every corner of the country. New agents have accounted for this expanded capability. While this has resulted in challenge to properly train all of these new agents, the results have been very positive for farmers.

In the Northeast, New York, Maine, Pennsylvania, Connecticut and Massachusetts, participation in crop insurance has been almost nonexistent. In these areas, a significant number of farmers, because for the first-time available insurance agents are there to explain to them the programs of crop insurance, we have seen a great deal of buy-up. In addition to that, many of the producers have elected to get into the CAT program. Again, this will bolster the economy of many of the small communities in America.

There are some mixed results. In the corn belt, we have seen more buy-up policies than CAT policies. In the southeastern States of Mississippi, Louisiana and Alabama, we have seen a great deal of conversion to CAT. The primary reason there is that cotton producers are dissatisfied with what they call excessive premiums and, as such, are converting to CAT policies.

We discussed tobacco and, again, tobacco is a crop, particularly in North Carolina, we have seen gravitate toward the CAT. One of the reasons is the abundance of carryover quota tobacco and a lot of farmers adequate in the self-insurance program.

The program is still too complex. Congress mandated that, to the maximum extent possible, they reduce the paperwork, and to this point little or no effort has been made on that point. In fact, some things have added to the workload. FCIC has mandated that, for 1995, every producer must sign his acreage report. In addition to that, the common policy was issued out. The common policy has re-

sulted in some cases in over 30 pieces of paper being mailed to each individual grower. The added expense of that that has come to the companies in delivering that have struck a blow to simplification.

I would like to add just a couple of quick comments and a couple of suggestions. Number one, dual delivery as it sits now, need was the definition, and the reason why dual delivery would be out there. We have demonstrated that we have agents available. In some agricultural States, there are over 15 companies vying for the insurance of each farmer, and CFSA is available there, as well.

I have emphasized the paperwork reduction and the need for that. In conclusion, I would like to assure you that the private insurance companies intend to make this program work and we stand ready to work with you to make it be successful for all America's farmers.

Thank you, Mr. Chairman. I would welcome any questions that might come up.

[The prepared statement of Mr. Miiller appears at the conclusion of the hearing.]

Mr. EWING. Thank you, Mr. Miiller.

Now we are going to Ms. Dawson for her testimony. I also want to have Mr. Lewis assume the Chair for the balance of the committee hearing. I do appreciate each of you and your participation today.

STATEMENT OF DEBRA A. DAWSON, CHAIRMAN, AMERICAN ASSOCIATION OF CROP INSURERS; ACCOMPANIED BY RICHARD C. GIBSON, CHAIRMAN OF GOVERNMENT RELATIONS

Ms. DAWSON. Thank you. I would like to thank the committee for the opportunity to be here and give testimony regarding the crop insurance program.

I feel a little bad about Congressman Pomeroy saying such wonderful things about me, because now he has built me up and he may be disappointed. However, I will do my best.

Rather than repeat all of the things that you have heard before, I may touch on a few of the points. I am chairman of the American Association of Crop Insurers, which represents over 75 percent of the premium that is written across the country for multiple-crop insurance. In addition, I am president and CEO of a crop insurance company located in Fargo, North Dakota.

Some of the things that I would like to talk about are that we did do the right thing. Congress did do the right thing in passing the reform act. It will need some time to have a chance to work properly before it is evaluated or judged as being a poor decision. Obviously, there will be some problems because of many of the things that were mentioned earlier, the very short time period to implement this program and get it sold and explain it to farmers, and so on.

However, companies did an excellent job nationwide of setting up farmer seminars and agent training. Many of these things have not been discussed today, but one of the ways that the word did get out individually to people one-on-one was through efforts of the companies in doing this education.

We talked about the fact that there have been inconsistent messages going out from some of the CFSA offices. Again, trying not to be so hard on FCIC or the CFSA offices and recognizing how difficult the task they had, but realizing that there were directives and information that went to those offices telling them how they should be presenting the program and explaining options to farmers in terms of giving them suggestions to go to an agent to be presented with risk management options, in many cases they ignored that.

We have found that there are many cases across the country where CFSA agents actually told farmers they were required to sign up and pay \$50 at the CFSA office, even if they had already purchased a buy-up policy from a company or a CAT policy, that that would not give them linkage unless they had already done it through the CFSA office. So there are some duplicate policies out there, and I am sure down the road we are going to be hearing about that and be having some problems about that.

Regarding simplification, I brought along some papers. These two stacks, this stack here and this stack here, are just some of the procedural guidelines we are required to follow as companies in implementing the crop insurance program. I think you can recognize what a difficult task it is to go through all of these manuals and meet the letter of the law in some of these areas. They are very specific.

We think that it is appropriate to follow some of the suggestions that are coming about through things like this report of the National Performance Review through Al Gore. There is a suggestion in here that the President should issue a directive requiring all Federal agencies to review internal government regulations over the next 3 years, with a goal of eliminating 50 percent of those regulations.

The crop insurance program really has been set up to be a model program to do that and has been sort of ahead of the game in recognizing that. Most of the legislators now seem to be agreeing that this is productive and make sense and economical and beneficial to the taxpayer in the long run. Unfortunately, although that language appeared in the bill and it was mandated that simplification be looked at, paperwork be reduced, and so on, there has been no effort so far.

Ken did mention in his testimony that they put out a bulletin requesting suggestions on simplification. He suggested it went out last week. I have a copy of that that was received today, and it is dated March 27th. This is a two-page request for suggestions to simplify. Unfortunately, some of the verbiage in here says things like many observers have suggested that simplifying the administrative requirements offers the best chance of reducing cost.

I think it was in the law. It is required, part of the law's reference. But the part that mentions the mandate is not referenced, and that is in section 106, where it is consistent with section 118 of the Federal Crop Insurance Reform Act of 1994 and consistent with maintenance of program integrity, prevention of fraud and abuse, the need for program expansion and the improvement of quality of service to customers, the board shall alter program procedures and administrative requirements in order to reduce the ad-

ministrative and operating costs of approved insurance providers and agents an amount that corresponds to any reduction in the reimbursement rate required under paragraph 4 during the 5-year period beginning on the date of enactment of this paragraph.

This is a concern. Just a couple of paragraphs later, it requires the corporation to submit to Congress a plan outlining these measures, and I know none of that has occurred.

On the second page of this request for suggestions for simplification, there are six requirements that go along with any suggestion you make to simplify something. You have to tell them the costs associated with the current procedure for which a change is proposed, the basis, hours of clerical time and administrative field work required by which the cost is measured, the savings that would result, the degree to which the current procedure and proposed changes, assure correct liability is established, premium collected and loss paid, the basis by which the estimates are made, and the degree to which affected policies would be more or less likely to be designated to the commercial funds.

Now, if I put a suggestion box in the back of my office and ask employees to give us suggestions about how we can reduce costs in our office or make things simpler, I do not think I would get very many suggestions if I had these types of requirements.

In any case the dual delivery is again a problem. The private industry is ready and prepared to take on the additional policies. The enrollment has taken place. There is no reason why that additional cost to the government should be maintained.

We would like you folks to read this "Death of Common Sense" book. I know many of you have probably already read it or seen parts of it, and so on. I think all of the suggestions that you have heard today fall in line with the kinds of common sense procedures that are talked about there.

Thank you for the opportunity.

[The prepared statement of Ms. Dawson appears at the conclusion of the hearing.]

Mr. LEWIS [presiding]. Thank you, Ms. Dawson.

Mr. Gibson.

Mr. GIBSON. I have no testimony. I am with Ms. Dawson.

Mr. LEWIS. Thank you.

I would like to just address this question to the panel, one of you or all of you, however you want to do it. Will you, as private insurance companies, have the physical and financial capabilities to handle the reform program, if we were to turn it over to the private sector?

Ms. DAWSON. If you are asking do we have the resources to handle the program in terms of the marketing and delivery and so on of the program, yes, that would be true, we do have the resources to do that and are willing to do that. The government subsidy and the reinsurance and so on provided by the government is something that is needed in order for the program to exist at all.

Mr. LEWIS. Thank you.

What percent of your area is taking the insurance, Ms. Dawson?

Ms. DAWSON. In my area, our company operates in a 5-State area and we have fairly high participation in the Midwest. Where we have seen the greatest increase in policies is in Iowa and Kansas.

We are also in the Dakotas and Minnesota. So I would think we would be seeing close to 80 or 90 percent participation in these areas.

Mr. LEWIS. Mr. Paster, do you have any questions?

Mr. PASTER. It is interesting, the good news is we have the act and we are happy about it. The bad news is we have not done the simplification and there is still duplication and competition.

I was curious in that I think all of you made the comment that the government is the competitor and you would like to get them out. Can you give me some examples? If any of you would like to respond.

Ms. HEATON. I was the first one that mentioned that. We are not necessarily saying they are a competitor. We are saying they have got an overload already. They have got plenty to do in those CFSA offices. We are in the business to do insurance. They are not.

This is a major educational process for them to learn the program, and I think just the example that we were using on delivery of even the catastrophic level of coverage, we would all like to do it the easiest way possible and that is to do the T-yield and no work with the farmer and get his production for all the past years and write all of that down. That is not the best thing for the farmer. This is our job. This is what we are in the business to do.

We have seen a reduction in the CFSA offices as far as staff. They have a tremendous amount of work. Personally, I have been fantastic workings with the CFSA offices, so we are not complaining about them. All we are saying is the government should not be in insurance. Let us do it. We can handle it.

Mr. PASTER. As I understand the reason we have that provision in the law was because you have some rural areas where the farmer does not have access to a private insurer, and so this is why—

Ms. HEATON. But I think we can identify that. Is that not right, Ken? We can identify the areas.

Mr. PARKERSON. We already have.

Ms. HEATON. So we can determine where that is needed.

Mr. PASTER. Then you are saying that the reason for the legislation, you have enough agents out there except for maybe a few where you can provide that.

Mr. Ackerman, do you want to come up and be on the microphone.

Mr. ACKERMAN. Thank you, sir. The areas that were identified, those 24 counties where no agent did this and this, and there was no agent in any adjoining county, they were cases where insurance was simply not available, not simply that they were underserved, but it was not available through a private agent. That list, as several panel members mentioned, was run past the insurance industry to make sure that no agent was available and was pared down as a result.

If I may say, the reason that the dual delivery provision was put in was a very serious concern that if we were going to require mandatory linkage, if we were going to require farmers to buy insurance as a condition for being in farm programs, getting Farmers Home loans and being in the conservation reserve program, we had to have the most efficient convenient delivery system from the farmers' point of view, and so we basically gave farmers a choice

to either buy catastrophic coverage and, if they chose to do so, either from a private agent or from a county office, the choice being with the farmer. For buy-up coverage, they had to go to a private agent.

As I mentioned earlier, our numbers so far show that some 530,000 policies at the catastrophic level have been purchased through county offices. There was as concern about capacity of the system.

Mr. MANNING. Sir, may I respond to this?

Mr. PASTOR. Surely.

Mr. MANNING. We are very much opposed to FCIC or CFSA being in the business, not from a competition standpoint, from a misinformation standpoint. Our insureds, our farmers are being delivered misinformation and told that they can buy CAT coverage and that would give them adequate coverage. It will not.

They are being told that they can use their established yields at ASCS established yields, when in fact the law states that they would use 65 percent of their ASCS established yields. We are told that years gone by it has always been a requirement that we have a signed acreage report. This is in error. There has been in FCIC rules for years, a procedure whereby an unsigned acreage report could be submitted. You use a letter of verification to the insured and gave him 10 days to make any corrections. If they were not, it was cut in stone.

Mr. PASTOR. In your testimony, you say there was as phone call, you could do most of this by a phone call.

Mr. MANNING. We could until this year. It has been changed and it is now requiring a signed acreage report. Right, Mr. Ackerman?

Mr. ACKERMAN. We are looking at that requirement, because we have heard concerns about it and we intend to put out a clarification of it. We are advised by counsel that that is a legal requirement. The acreage report is the point of contact by which the farmer tells us and commits to what acreage he or she is actually planting, and that is the document which is the basis for actually calculating the insurance coverage, the amount of coverage, the coverage guarantee, and the size of the premium. So there is a requirement that the farmer back that document, whether by a signed report or looking at alternatives, because of the concerns we have heard. That is what that comes from.

Mr. MANNING. An acreage report has always been required.

Mr. ACKERMAN. I understand that, but you could—

Mr. MANNING. But a signed acreage report was not. This is a copy of a USDA FCIC Marketing Division acreage reporting handbook. It says down here "unsigned acreage reports," and then it goes on to say that acreage reports not signed by the insured require notification to the insured using acreage verification letters, and then there is a sample letter. Now, this is FCIC's manual. Granted, it is a 1985 issue, but it has not been changed. Also, all the way up to 1994, there has never been a change in FCIC manuals that stated it had to be a signed acreage report. Now, we are 100 percent in favor of an acreage report, but not signed.

[A copy of the manual is on file with the Committee.]

Mr. PASTOR. The reason for the signing is to eliminate fraud or—

Mr. ACKERMAN. The farmer is held financially responsible for what is on the acreage reason, and that is the reason.

Mr. PASTOR. I have heard and read in some of the testimony where they say that the new regulations are not farmer friendly, that it seems to be that you are following the law so closely that you are not given any latitude, like on the signed report, et cetera. Do you want to make some comment, Mr. Ackerman, on how you want to make this more farmer friendly?

Mr. ACKERMAN. Yes, please. I would like to say generally on this question that program simplification, yes, that is a provision in the statute and, yes, it is something we are committed to do. Our first and foremost priority during the start-up period under this legislation was to deliver the new product to farmers. That was our number one priority, to make sure that farmers were able to buy insurance, that they were able to satisfy their linkage requirements, that we were able to get the product out into their hands quickly within the sales closing dates that we had to work with.

Other priorities, yes, did get pushed backwards. Paperwork reduction and program simplification we are committed to do. Yes, the notice went out only very recently, but the reason, as I said, our first priority during the start-up period was to get the product into the hands of farmers.

Mr. PASTOR. I want to ask one more question. Yes, sir?

Mr. GIBSON. In reading the memorandum from the FCIC, I wonder if they would like to apply this fixed stipulation they have had regarding the regulations as far as suggestions for simplifying the program to their own process.

Mr. PASTOR. I do not know. You might ask Mr. Ackerman.

Mr. ACKERMAN. I think they are fair standards, certainly.

Mr. GIBSON. Would you like to apply them to your own process?

Ms. DAWSON. I think Rick is talking about when new procedures are put out.

Mr. ACKERMAN. When we put out new procedures, we always look at what the potential costs will be and what the potential burden will be.

Mr. GIBSON. To who?

Mr. ACKERMAN. To the private sector, as well as our other program participants. Again, our preeminent priority has to be to deliver our product to the farmers.

Mr. PASTOR. I am assuming, as the product is out there now, that you will be working to simplify it and make it farmer friendly.

Mr. ACKERMAN. That is correct.

Mr. PASTOR. The question that my Arizona farmers ask me, they tell me that the 15 percent loss can be devastating to them. Do you have any suggestions on how we could cover that problem? At least the Arizona farmers are concerned about—

Mr. ACKERMAN. Primarily cotton?

Mr. PASTOR [continuing]. Cotton and also some specialty crops.

Mr. GIBSON. A little of the problem—and I certainly agree that probably maybe one of the few things that Ken and I agree on is that, when you start offering an 85 percent contract, in other words, 15 percent, that it becomes very, very expensive and your production, when you get into a bell curve of the production, that 15 percent, you are going to be touching that on the loss very, very

often, and so it is going to be a very expensive product. So I am not sure that even when that product is offered to the general public or to the farmers that they will want to purchase it, because of the expense.

Mr. PASTOR. I have not read the book, but I will go out and buy it.

Thank you, Mr. Chairman.

Mr. LEWIS. I have heard the suggestions for simplification of the paperwork. What specific suggestions might you have, just standardized forms or what?

Ms. DAWSON. There were a number of task forces that met last year. One of the issues that was discussed was simplification and there have been recommendations that have been gathered and made and people would be happy to do additional recommendations in the future. Ron touched on one of the situations, which is a change in the policy.

We went from a policy that was—in our case, we had it down to a single double-sided page folded up like this to a standard 8-page policy plus actuarial pages and so on that had to be individualized per insured. In some cases, it was between 30 and 50 pages that went out to each insurer. We had to buy in our office—in fact, this memo was a memo that was put together by one of my staff after they did the printing of this. We tried out-sourcing it, we tried many different things. We bought two high-speed laser printers. It cost over \$10,000 in postage. This is to send out just for four of our States 14,000 policies.

It took over 500 hours of printing, non-stop printing on two printers. She did not know how much the paper and the envelopes cost. It was \$2,500 worth of time to pare down the material and stuff them into the envelopes. We went through 8 laser toners. That is \$2,000. About \$2,000 in programming costs, about \$100 in long-distance calls to FCIC trying to figure out various things that we had to do, a number of management meetings, 50 boxes of overnight mail, 100 or more paper cuts, headaches, 10 nightmares, 2 bottles of booze and 100 band-aids, et cetera, you know, those kinds of things which was—this was a nightmare for people in our office trying to get this out. It is a one-time deal.

I am sure you have the same problem with the CFSA offices. There are questions like is it necessary or is there another way to do these things. I know Ken does not want to harm the integrity of the insurance program. We do not want to do that, either. So those are things that have to be looked at.

When many of the Congressmen ask questions and many of the people testifying from a producer standpoint have questions about the farmer friendliness and some of the restrictions that they run into, which do seem burdensome and ridiculous in some cases, many of those are designed to protect against adverse selection, to reduce the costs of the program, and so on. If everyone got everything they wanted, we could not have a program. So those things must be kept in mind, as well.

Mr. LEWIS. Does anyone else have anything?

Mr. GIBSON. An interesting fact I think about there form movement was during that period of time, as Deb indicated, we had a number of meetings, and one of the things that came out of that

meeting was what we called a refined application that would simplify the process for the farmer. Instead of having an application, an APH form and an acreage report, that was all combined into one form. The idea again was to get all of that done at one time, so that there would not be three different contacts.

But the problem that we ran into is that there was very little tolerance allowed into the acreage side of it, and I just wonder—I have seen recently where CFSA I think has increased the tolerance from 5 to 10 percent—why in this program, if a farmer has less than 5 or less than 10 percent tolerance, he would not have qualified to have met the requirements.

I think it is a very good form. It solves a lot of problems from the standpoint of the simplification and certainly a lot less contact with the farmer.

Mr. MANNING. Sir, I would like to suggest that the FCIC have an agency advisory board. I believe there is an awful lot of experience out in the agency sector that knows—they know the problems of the farmers, they know the problems of the companies and they know what will work and what will not work. Someone sitting in Washington does not know what goes on in Halifax, North Carolina, or Dallas, Texas, or Monterey, California. The agents, if it was as diverse group, would have input and in my opinion they could throw out a lot of problems and solve them before they ever became a problem and were cut in stone. When we get them now, they are already cut in stone.

Mr. LEWIS. Before we close, anyone else? Yes?

Mr. PARKERSON. Let me simply add that with NCIS, we hosted a great series of task force meetings and working meetings with FCIC and came up with a lot of suggestions that we have heard up and down the line here today. Because of implementation at the time, it did not seem we could get a lot of this done. But I think we end up agreeing—and I am going to really open up a Pandora's box here by saying that we have agreed, I think we have agreed even with the help of agents groups and the companies, have come to what we think are reasonable solutions to a lot of these things, but it gets back to here to the inner-beltway and to OGC, and all of a sudden what we have talked about and what we have worked hard to do and what we have tried to keep in mind, which is the integrity of this program, which is simplification, which is non-linkages, trying to get this all out, it seems to come back total disarray from what we have kind of seen, because we are going through—and this is a Catch-22. They sit there and they mandate what they think you all have done and what they think they are reading through it, and they come back and tell us you cannot do it because it will not work that way.

I think we are really getting very frustrated, although we are willing to work through this, because there has been a lot of time, a lot of people's effort and energy put into this program. We think it is a sound program, but there are two main things that you have to do if this is going to be an insurance program. I have heard the words "actuarially sound." It has got to be. There has got to be strong underwriting.

But a lot of those cases, if it is done, we can eliminate a lot of the excess rules and excessive amounts of paperwork that Ms.

Dawson has brought before you today. I do not know what it is. FCIC I think is trying to do that, and on their behalf they have agreed with us. But we seem to get here and we have a heck of a time trying to bring it out, as Mr. Manning indicated, to the real reality of what is happening in the industry and what is happening in the field, the rural community.

Mr. LEWIS. Believe me, we are trying to eliminate as much of that as possible, not only in this program, but in a lot of other things, too. It is difficult, I know.

Mr. ACKERMAN. I will just say very briefly, from the point of view of FCIC and the department, we obviously have an interest in paperwork reduction and making it occur. Yes, in the first few months under the program we have had to concentrate on getting the new rules out. But now that we have gotten through that, this is clearly a priority for us. It is important for the government side of this program to have a strong and effective private sector, and we understand that, yes, this is a complicated program. We do put out a lot of paper, we do have to put out separate rates, separate timetables for different crops in every single county of the country. It does have a certain inherent complexity, but it is something that I agree we do have to find ways to cut through.

There are a lot of ideas that have been germinating up over the past several months, and I think now that we have had the experience of going through a sign-up period under the new program, that will give everyone a lot to chew on and coming up with some good ideas under this. We are clearly committed to making this paperwork reduction process work.

Mr. LEWIS. Thank you.

Anything else?

[No response.]

Right now, I would like to submit for the record some questions by Congressman Combest.

[The answers to the questions are on file with the committee.]

Mr. EWING. I would like to also thank all the witnesses today for their time and effort to appear here before the subcommittee on this important issue. The record will remain open for 10 days to accept statements and any additional information.

At this time, the subcommittee is adjourned. Again, thank you all so much for your time.

[Whereupon, at 5:17 p.m., the subcommittee was adjourned.]

**STATEMENT OF
GRANT B. BUNTROCK
ACTING ADMINISTRATOR
CONSOLIDATED FARM SERVICE AGENCY
UNITED STATES DEPARTMENT OF AGRICULTURE
BEFORE THE
SUBCOMMITTEE ON RISK MANAGEMENT AND SPECIALTY CROPS
COMMITTEE ON AGRICULTURE
UNITED STATES HOUSE OF REPRESENTATIVES
MARCH 28, 1995**

Mr. Chairman and members of the Subcommittee, I am pleased to appear before today as Acting Administrator of the Consolidated Farm Service Agency (CFSA).

As you know, last October, Congress approved and President Clinton signed into law the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994. The reorganization of USDA, along with the implementation of the new crop insurance reform program, has been a massive undertaking. The CFSA itself is a major product of that reorganization. We have had a busy time during the past five months putting the new crop insurance reforms in place simultaneously with our top-to-bottom agency reorganization.

Ken Ackerman, the CFSA Acting Deputy Administrator for Risk Management, will detail the steps we have taken to implement the new crop insurance program. I would like to touch briefly on our longer-term goals for Federal crop insurance once we complete this busy implementation period.

Federal crop insurance has undergone intense change over the past several years. Beginning in the early 1990's, we have taken a series of important steps to improve both the program's financial soundness and its quality of service to farmers. The 1994 Reform Act is the most recent and the most sweeping of these steps. In response to long-standing needs, we have significantly revised our contractual relationship with private insurance companies. We have implemented an actual

production history-based yield system and a non-standard classification system to provide more tailored coverage to farmers. We have provided flexible new choices for producers like prevented planting and replacement-cost coverage. And we have upgraded our internal organization and infrastructure to provide quick response to new demands for better service or program changes.

As we look to 1995 and 1996, Federal crop insurance must continue to change. We are committed to expanding the program carefully to cover new crops and to provide new insurance options. We are committed to reducing the regulatory burden on participating private insurers and other program participants. We also must work to address new issues that emerged during implementation of the new reforms over the past several months.

Most important, however, now that we have put in place so many fundamental changes in such a relatively short period, it is vital that we give the new reformed program a chance to work. Both farmers and insurance providers alike need a period of stability in order to gain experience with the new program, to learn to work with the new rules, and to participate in the new benefits and opportunities. Farmers and insurance providers need to be able to make long-range business and farming decisions based on the knowledge that the program will be there in predictable form to service their needs.

Similarly, we as policy-makers, both in the Administration and on Capitol Hill, need the opportunity to gain some experience with the new program, to identify its strengths and weaknesses and correct potential weaknesses, and to review how it functions with other USDA programs. Both Congress and the Administration invested a great deal of time, thought, and energy in developing the new insurance reforms. We have high expectations for them, both in terms of farmer opportunity and taxpayer savings. Above all else, we want to see an insurance program that will work over the long haul.

Thank you, Mr. Chairman.

Crop Insurance **REFORM**

Crop Insurance Expansion

Crop Year	1993	1994	1995
Total Premium	\$1.373 billion	\$1.373 billion	\$1.373 billion
Total Premium	\$11,332	811,332	\$1.373 billion
Total Net Acres	83.7 million	811,332	201.2 million

Sources
 1993-1994 CFSA Office Risk Management Summary of Business
 1995 CFSA Office Risk Management Estimate



Crop Insurance Deadlines - Crop Year 1995

Crop Type	Sales Closing Buy-Up Deadlines	Sales Closing CAT Deadlines	Late Application Deadlines -- Buy-Up	Late Application Deadlines -- CAT
Fall-planted crops	Oct.-Dec. 1994	March 15, 1995	No late applications	April 28, 1995
Spring crops	Jan. 15	Feb. 15	March 15	April 28
	Feb. 15	Feb. 15	March 15	April 28
	Feb. 28	Feb. 28	March 15	April 28
	March 15	March 15	March 15	April 28

**STATEMENT OF
KENNETH D. ACKERMAN
ACTING DEPUTY ADMINISTRATOR FOR RISK MANAGEMENT
CONSOLIDATED FARM SERVICE AGENCY
UNITED STATES DEPARTMENT OF AGRICULTURE
BEFORE THE
SUBCOMMITTEE ON RISK MANAGEMENT AND SPECIALTY CROPS
COMMITTEE ON AGRICULTURE
UNITED STATES HOUSE OF REPRESENTATIVES
MARCH 28, 1995**

Thank you for conducting today's hearing to discuss the implementation of the Federal Crop Insurance Reform Act of 1994.

Just one year ago, in March 1994, President Clinton proposed a fundamental change in how government responds to the needs of farmers who have lost crops due to natural disasters and perils. At its core was a simple idea. Over a period of decades, Washington had developed and maintained two separate and expensive programs designed to address the same need but which were working at cross purposes: Federal crop insurance and annual ad hoc crop disaster relief. President Clinton argued that by eliminating ad hoc crop disaster aid and replacing it with an expanded insurance program and a permanent non-insured disaster relief system, we could provide better, more dependable aid to farmers while at the same time we could limit the fiscal exposure of American taxpayers in times of crisis.

Congress responded to the President by enacting the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 in October 1994. As a result, this year, most farmers will know with certainty at the time they plant their crops that they are covered in the event of disaster. They will not have to wait anxiously after a loss to learn whether Washington will step in to help. We thank you for giving us the opportunity to move forward with this important reform for American agriculture.

In the five months since President Clinton signed the new legislation, USDA has committed itself to making his promise a reality. At this point, I can report to you that our progress is good. Much work remains to be done, but we are now well down the road toward implementing the new reform program for the 1995 crop year.

As an operational matter, implementing the new reform program has been a

sizeable undertaking. Attached is a detailed list of key steps in this process. The first needs were to develop new program rules and procedures; new cashflow and computer software systems; train nationwide staff; inform producers of the new requirements; and address the questions that came up in applying the rules to individual cases. Three elements of the new reform program greatly increased the complexity of the process this year:

- **Program linkage/ expansion:** This year, for the first time, purchase of Federal crop insurance is a condition for producers to participate in Commodity Credit Corporation price support and production adjustment programs, most agricultural credit loans administered by the former Farmers Home Administration, and the Conservation Reserve Program. As a result, the sheer number of farmers and farm owners who needed to be informed of the new rules, and whose applications had to be processed, increased greatly over past years. We expect producers to purchase about 1.6 million Federal crop insurance policies for 1995 crops at the catastrophic and buy-up levels, more than twice the record level set for 1994. (see table 1) At the same time, long-standing differences in record systems used for farm programs and crop insurance purposes are being aligned to assure that farmers' program eligibility is protected.
- **Dual delivery:** This year, for the first time, catastrophic insurance coverage was made available through county offices of the Consolidated Farm Service Agency (CFSA) as well as through private insurance agents. Additional or "buy-up" coverage is available only through private agents. We argued throughout consideration of the reform legislation that dual delivery was essential to guaranteeing the convenient availability of coverage nationwide for farmers subject to linkage. Initial 1995 data support this view. As of mid-March, CFSA county offices had sold more than 400,000 catastrophic policies. In some states, this represents a large majority of the total policy pool.
- **Early sales deadlines:** Beginning this year, the new legislation moved the crop insurance sales deadlines for spring-planted crops to 30 days earlier than last year, and eliminated FCIC's prior authority to adjust these deadlines administratively.

We issued regulations and procedures, negotiated a reinsurance agreement with participating private companies, and completed nationwide training of CFSA staffs and private industry within three months after enactment of the reform legislation. March 15, 1995, was the final crop insurance sales closing date for 1995 crops. Full data on this year's sign-up will not be available for several weeks because private insurance firms must still process data from individual agents and CFSA offices are still receiving late applications. Our early indications are that sign-up levels are at or near expectations. As noted above, CFSA offices alone have sold more than 400,000

catastrophic policies. Many private insurers have seen significant growth in purchases at the "buy-up" level. A combination of program linkage and effective public outreach, we believe, created a high level of interest in crop insurance among farmers, which is reflected in these favorable early results. We will provide this Subcommittee with a detailed analysis of the 1995 sign-up results as more information becomes available in the coming weeks and months.

From the start, we approached the implementation of the crop insurance reform program as a cooperative effort among several branches of USDA, the private insurance industry and agent force, producer organizations, and farmers themselves. Without this effective partnership, implementation would not have been possible. In particular, our effort clearly demonstrated the wisdom of the reorganization of the Department of Agriculture which was passed along with the 1994 reform legislation. Implementing the dual delivery and program linkage elements both required very tight coordination among the Risk Management, Farm Program, and Program Delivery divisions, which would have been far more difficult without the already-accomplished merger of the former ASCS and FCIC organizations into the new CFSA.

Once sign-up for catastrophic coverage began in January 1995, many specific issues arose as CFSA county offices and private insurance agents tried to apply the program rules and procedures to literally over 1.5 million individual cases. Working closely with the other arms of CFSA, we provided more than 300 detailed written responses to policy questions on issues ranging from treatment of entities and valuation of production yields to interpretation of the linkage rules, acreage reporting, administrative requirements. I ask that a set of these questions and answers be included in the record along with my testimony.

The most important adjustment which we made during the sign-up period was to provide a process for accepting late applications for catastrophic coverage (for the 1995 crop year only) for farmers subject to program linkage requirements who had not reported early-year crop losses (see table 2). The early spring sales closing dates had alerted many in the farm and insurance communities to voice concerns that many farmers simply might not have adequate time to learn the new program requirements and apply within these constraints. The April 28 sign-up deadline for 1995 CFSA farm programs is about 45 days later than the latest crop insurance sales closing date of March 15. This created a possibility that some farmers might become confused over two dates, fail to purchase insurance on time, and be prevented by linkage from signing up for program benefits.

The late application process assures that most farmers who need to apply for farm programs can do so while limiting any potential exposure to the crop insurance premium.

Central to our implementation plan was a focused effort to inform farmers of the changes in Federal crop insurance and the need to satisfy the new linkage requirement. This outreach program used a variety of media and relied on a tight working relationship with private insurance providers, CFSA offices, producer organizations, and members of Congress. We conducted town meetings for farmers across the country, sent letters and postcards to all individual producers, conducted countless radio, television and print interviews, put up billboards, and produced and circulated fact books, pamphlets, and news materials. We also provided a 1-800 telephone number to answer questions from farmers across the country on the new programs. Thousands of calls were received. We will provide the subcommittee with a detailed review of our public outreach efforts once the sign-up period is completed.

We still have many steps before implementation of crop insurance reform is complete. We are now finalizing the rules and procedures for the new Noninsured Crop Disaster Assistance Program (NAP), which provides protection to producers of noninsured crops. Training begins this week for USDA staff across the country so that we can soon deliver this program to the public. We will soon begin a public outreach effort to inform farmers of NAP requirements including the need to annually report their acreage in order to qualify for benefits -- a change from past ad hoc disaster aid programs.

Most importantly, we must demonstrate that the new program can deliver effective protection to farmers when disaster strikes. A key test will be the recent flooding in California. Farmers in California who suffered major losses from the intense rains and flooding of early March benefited from the fact that, unlike in prior years, they did not need to ask Washington for a special ad hoc crop disaster bill at a time of tight budgets in order to get protection. The crop insurance reform program is permanent law. Early indications are that most of the crop damage resulting from the California floods will be treated under NAP because they involved non-insured crops like lettuce, artichokes, strawberries, broccoli, and cauliflower. We recognize that these losses occurred before the NAP rules were in place and will assure that farmers will not be disadvantaged by this fact. We are working carefully to assure that California growers get to participate fully in the new program and its benefits.

Another key element of the 1994 Reform Act was the requirement that FCIC reduce the paperwork and regulatory burden on crop insurance participants. We are pursuing this goal both through formal and informal channels. Last week, I issued a formal solicitation, as mandated under the act, asking all reinsured companies, trade organizations, and CFSA offices for their ideas on how to reduce program administrative burdens. We will circulate this solicitation to producers organizations, insurance agents, and all other interested parties to obtain the widest range of views on how best to streamline Federal crop insurance. I urge all the participants in today's hearing to join in this process and give us your ideas.

Mr. Chairman, for the progress we have made so far, I want to give special thanks to those people outside of Washington, D.C. in both the public and the private sector who have worked directly with farmers over the past few months in making crop insurance reform a reality. The staffs of the CFSA's county and State offices, the Risk Management Regional Service Offices, and the Kansas City offices worked long hours under trying conditions to deliver this new program on a customer-by-customer basis. Similarly, individual insurance agents across the country have provided a high level of service in selling catastrophic and buy-up coverage to a very large number of farmers across the country. We owe them our appreciation.

Again, we thank you for this opportunity to appear before the Subcommittee, and would be pleased to answer any questions you may have.

ATTACHMENT**FEDERAL CROP INSURANCE REFORM ACT OF 1994**
KEY IMPLEMENTATION STEPS**Organization/ Communications:**

- Within CFSA, FCIC staffs worked closely with the CFSA Farm Programs and Program Delivery staffs to develop a single management system and chain-of-command/communications system for directing and serving county offices in delivering the new program and developing systems to implement program linkage. This process embodied a major step toward merging FCIC and former ASCS organizations into a single, integrated CFSA.
- With the private insurance industry, participated in development of working groups and a steering committee representing all elements of the Federal crop insurance industry. Met regularly with these industry groups and representatives during both consideration and implementation phases. This constant contact, both formal and informal, with the private insurance industry was a major positive force in our ability to achieve reform.
- Met with farm producer organizations, House and Senate Agriculture Committee staffs, bankers, and others to enlist help in public outreach and discuss implementation issues.

Sign-up Deadlines:

- For fall-planted crops and crops with sign-up dates before January 1, 1995, provided until March 15, 1995, for purchase of catastrophic coverage;
- For all crops, provided process to accept late applications for catastrophic coverage at CFSA offices or private insurance agents through April 28, 1995, where program linkage requirements apply and other conditions are met.
- For all crops with 1995 sales closing dates after January 1, 1995, but prior to March 15, 1995, provided late application process for buy-up coverage through March 15, 1995, where program linkage requirements apply and other conditions are met;
- For all crops with sales deadlines in January, 1995, provided until February 15 to purchase catastrophic coverage;
- Provided combined, uniform acreage reporting dates for both crop insurance and farm

programs to reduce the burden on farmers and CFSA offices.

Program Issues:

Developed and circulated a detailed reform implementation plan on November 9, 1994, in order to get feedback from affected groups on our overall approach. The initial focus was on drafting and promulgating implementing regulations, which were published as "interim final" rules on January 6, 1995.

Based on the new rules and procedures, conducted catastrophic program **training** for USDA staff and for private insurers beginning with three national train-the-trainer sessions November 1994. The 506 trainers from these sessions then trained county office staffs in meetings across the country in December and January. Training manuals and instructions materials were developed for this purpose.

Nationwide crop insurance reform training held for Extension Service personnel.

Planned training includes nationwide catastrophic coverage loss adjustment and regional nursery crop insurance training. Loss adjustment training to use the same train-the-trainer concept used in the initial program training.

Provided written responses in Q&A format to over 300 frequent policy questions raised by county offices in applying program rules to complex individual situations. Responses often required extensive discussion with Farm Program staff and set policy on key issues. Copies of these Q&As were provided to private insurers to assure consistency. (see Q&A sets 1 thru 4)

In response to many questions raised about the treatment of multiple ownership interests, including husbands and wives, we provided specific clarification of where multiple owners or operators must purchase separate catastrophic policies and where single policies would suffice. (see Q&A set 3)

Provided streamlined sign-up procedures, including use of a register at CFSA offices or private agencies to protect farmers in the event of overcrowding at offices in the final sign-up days.

Loss Adjustment:

- Established policy of standardized, uniform loss adjustment for policies purchased from CFSA offices and private insurers. Some 240 CFSA State office trainers will attend loss adjustment training on the new program on March 27-29 and April 3-5. These State office trainers will train CFSA county staff. Loss adjustment for CFSA-sold policies generally will be conducted by private adjusters on contract to FCIC.

Noninsured Crop Disaster Assistance Program (NAP):

- Implementing rules and procedures for NAP have been prepared and are undergoing final Administration clearance. Initial train-the-trainer for some 240 CFSA State office trainers is scheduled to begin this week.
- To assure coverage for producers in situations like recent California floods where losses occurred before rules were promulgated, the initial acreage reporting dates for NAP will be set in late spring and/or summer to allow time for producers to be informed of and to meet the reporting requirement. Initial loss adjustments in California and Florida have already occurred.

Financial/Cost:

- For private insurance providers, following extensive consultation and risk evaluation, offered a reinsurance contract amendment providing FCIC reinsurance protection for companies selling catastrophic coverage under the same formula for risk-sharing and gain-sharing as provided for additional or "buy-up" coverage, additional funding for loss adjustment expenses, and other features. All but one of the reinsured companies agreed to the reinsurance contract and offered to sell catastrophic coverage on a broad basis.
- Created new program and accounting systems to accommodate extensive program changes; including the new catastrophic coverage, CFSA delivery, rating changes, increased subsidies, and administrative fees.
- Working with Comptroller, modified FCIC cash-flow reporting to include the new funding mechanisms and sources of income.

Computer/Software:

- Modified software and data transmission formats for software development to enhance electronic transmission and provide system improvements to reduce data volume and potential errors from the CFSA county offices.
- Developed or modified supporting software to accommodate new program changes, increase efficiency, and eliminate actuarial document distribution on paper.
- To implement changes specific to the CFSA county offices, developed 153 new computer programs and made seven separate software releases to the counties. Sixty additional programs are in testing and more will follow as development continues for additional catastrophic coverage requirements and the Noninsured Assistance Program.

Program Expansion:

- Consistent with program expansion timetable, established pilot insurance programs on two new crops in crop year 1995: canola and blueberries. Feasibility studies for future crop expansion remain on schedule.
- Established position of Specialty Crops Coordinator within CFSA Risk Management arm to oversee continuing crop expansion effort. Guidelines on providing data for new crop programs will be published in the Federal Register in April 1995, as required in the Reform Act.
- Dollar denominated coverage will be implemented for the 1996 crop year, increasing producers' choices of coverage levels and their ability to more closely match desired coverages to individual operations.
- Cost-of-production pilot programs are being evaluated for 1996 crop year implementation and trial.

New Farmer Pilot Program:

- Established pilot program to provide favorable yield coverage to beginning farmers in 30 counties for the 1995 crop year.

Prevented Planting:

- Implemented the new legislation for 1994 crops which were prevented from planting due to widespread flooding or excessive moisture that occurred prior to the 1994 spring crop sales closing date.
- Amended policies with prevented planting provisions to provide additional coverage for prevented planting year round in 1995 and beyond.

Under-served Counties:

- Developed process to provide "buy-up" coverage to farmers in 28 counties where private agents were not available. Private insurer and agent representatives were consulted in this process.

Forage Production:

- Implemented the mandate to provide for procedures allowing producers of feed and forage 80% coverage without standard required records.
- Simplified required underwriting reports for 1995, and evaluating the feasibility of a forage Group Risk Plan (GRP) of insurance for the 1996 crop year.

Public Outreach:

- Distributed over 5 million producer letters, postcards, Fact Books, and other informational materials throughout the agricultural community to ensure that all producers were aware of new program requirements.
- Established a toll free telephone number for anyone to call and receive the Fact Book, plus receive individual attention to more specific questions from the Regional Service Offices.
- Used newspaper and radio to provide Reform information via public service announcements, articles, farm broadcasts, and paid advertising.
- Conducted hundreds of town hall, grower group, and county meetings that reached thousands of producers to discuss the new program.

Program Compliance:

- New initiatives beginning in 1994, on top of Risk Management's ongoing compliance program include:
- Beginning to collect agent and adjuster social security numbers in order to improve compliance oversight of crop insurance program. This data will be inserted as identifier codes into the data base beginning with crop year 1996;
- FCIC has begun using its debarment authority to bring increasing numbers of cases against farmers and agents who abuse program rules. So far, some 38 letters of intent to debar for 1995 program benefits have been issued. Prior to this time, fewer than a dozen letters had been issued.
- Initiated an appraisal monitoring program in selected areas to curb program abuse by confirming accuracy of loss claims at an early stage. This approach, based on consultation with reinsured companies, risk compliance, and CFSA offices, has been used successfully in Georgia and Texas, and is being extended to parts of Arkansas.
- Beginning in August 1994, established a five-state pilot program to pool resources among the Risk Compliance staff of CFSA, CFSA state and county offices, and private reinsured companies to identify and prevent program abuse. This approach will be expanded nationwide.

Table 1**CROP INSURANCE EXPANSION**

Crop Year	1993 actual	1994 actual	1995 estimate
Total Premium	\$756 million	\$948 million	\$1.373 billion
Total Policies	699,680	811,332	1,672,800
Total net Acres	83.7 million	99.6 million	201.2 million

Source: CFSA/ Risk Management

TABLE 2CROP INSURANCE DEADLINES – CROP YEAR 1995

Crop Type	Sales Closing Buy-Up Deadlines	Sales Closing CAT Deadlines	Late Application + Deadlines – Buy-Up	Late Application + Deadlines – CAT
Fall-planted++ crops	Oct-Dec. 1994*	March 15, 1995	No late apps. accepted.	April 28, 1995
Spring crops*	Jan. 15	Feb. 15	March 15	April 28
	Feb 15	Feb. 15	March 15	April 28
	Feb. 28	Feb. 28	March 15	April 28
	March 15	March 15	March 15	April 28

**Merlin Plagge, President, Iowa Farm Bureau Federation
and Member, AFBF Board of Directors**

Mr. Chairman, thank you for the opportunity to testify on the crop insurance program. My name is Merlin Plagge. I am a farmer from Sheffield, Iowa, a producer of corn and soybeans, and a long-time user and supporter of the crop insurance program. I also serve as President of the Iowa Farm Bureau and as a member of the American Farm Bureau Federation Board of Directors.

At the outset, let me say that Farm Bureau is pleased that Congress approved a new crop insurance program. Farm Bureau has strongly supported the elimination of crop specific disaster programs in favor of actuarially sound crop insurance. However, in the past, the crop insurance program failed to attract sufficient farmer participation due to the almost yearly passage of ad hoc disaster assistance and the fact that the crop insurance program often failed to provide adequate protection.

Although we think the changes over the past year are a step in the right direction, we are far from satisfied with the current crop insurance program. Budgetary constraints did not allow for a meaningful permanent disaster assistance program. Our members preferred to pay for a workable risk management program. A viable, economical crop insurance program is a necessary component of agricultural risk management that increasingly must be borne by the individual producer.

Farm Bureau has long supported a program in which the federal government provides only catastrophic insurance and regulation of the industry. Farm Bureau continues to believe the private sector can and will make the crop insurance program work with appropriate federal support. We believe that private industry can administer and service the crop insurance program with less fraud and abuse than can be accomplished if the primary delivery were through federal offices.

Farm Bureau continues to oppose the linkage of crop insurance with federal agricultural programs. This position was reaffirmed by our voting delegates earlier this year. While linkage may be the easiest way to increase participation, it does not recognize the fact that some people do not need crop insurance. While crop insurance is a risk management tool, it is not the only risk management tool. Producers irrigate, diversify, self-insure and do many other things to insure against a disaster. Forcing all individuals to buy crop insurance to qualify for farm program benefits is a mistake.

Certainly we have heard concerns about the new crop insurance program this spring. That is to be expected with a new program, especially since reform legislation was adopted so late last year and rules and regulations had to be written and implemented in such a short time frame. We hope that some of the concerns raised by our members, especially those involving

administrative/paperwork burdens, will not occur after the first year. Farm Bureau members have expressed concerns that the number of pages of forms is excessive, and that some of the information required on form ASCS-574 is beyond what is reasonable and necessary.

We believe several provisions need to be changed in order to make the program more workable:

1. Mandatory coverage as a prerequisite to participating in the farm program is nothing more than an assessment for those producers who choose not to purchase federal crop insurance for valid reasons. The purchase of federal crop insurance should be a voluntary option.
2. The law requires each producer to pay an annual administrative fee of \$50 per insured crop per county, with a maximum cap of \$200 per producer per county for catastrophic coverage. While the fees were initially established to cover administrative costs, we are apprehensive that as budget pressures escalate, it will be all too easy to disconnect the current coupling between actual administrative costs and the fee charged to producers.
3. Since the law requires a payment of \$50 per crop per county, this creates an inequitable situation for farmers who have farms in two or more counties. Frequently, producers have most of their land in one county, but a few acres run over the county line. This requires them to pay for coverage in two counties even though the land may be separated by only a few feet. This \$50 per crop payment for a few acres makes it unlikely the cost can come anywhere near approaching the potential benefits of the catastrophic insurance. The current law already allows exemption for minor crops. The exemption should be expanded to include minor acreage.
4. A similar problem arises when there are multiple owners of land. Assume a situation whereby a farmer owned 160 acres of land and planted it in soybeans and corn. Catastrophic coverage would cost him \$100 -- \$50 for each crop. However, when the land is inherited by four siblings, each inherits 40 acres. While the land is being farmed as one unit by one of the siblings, the law requires each of the four siblings to pay \$100 for covering two crops on each of the 40 acres.

An even more blatant example of the absurdity of this problem is that husbands and wives who farm jointly must both pay the catastrophic coverage. Farm Bureau hopes the Subcommittee can seriously review this problem and tie compliance to the land which is being farmed rather than to the operator.

5. Another shortcoming of the crop insurance reform package is its reliance on yield as a trigger mechanism for insurance payout. Farm Bureau favors

coverage based on dollars per acre rather than yield. Reliance on yield as a trigger mechanism tends to skew the program in favor of high-risk production areas and makes it much more likely that gaps in coverage will exist.

6. Currently, producers must list all crops that they might even consider planting during the coming year when they apply for catastrophic crop insurance since all significant plantings must be covered. In some cases, producers may need to switch their cropping plans because of unforeseen circumstances. The rules governing the catastrophic crop insurance program need to be flexible enough to allow producers to plant a substitute crop without being found out of compliance with respect to the catastrophic coverage requirements. If all of a producer's acreage was initially reported and covered by catastrophic insurance, then the producer should be able to substitute a different crop at a later time to remain in compliance with the program.

In addition, those who pay for several crops to be planted and then decide to plant fewer crops should not be penalized by having to pay the \$50 per crop fee. For example, by March 15 an Iowa farmer considering planting corn, soybeans and wheat on his farm would be required to sign up for and pay \$50 per crop for each of the commodities he is considering planting. Then prior to the commodity program sign-up deadline, he changes his mind and decides to plant only soybeans. If he did, he would actually only owe \$50, but would have paid \$150. In reality, by not having the crop insurance sign-up and farm program sign-up deadline dates coincide, it means the sign-up deadline for crop insurance also becomes de facto sign-up deadline for farm program participation.

7. The language regarding the estimation of yields by averaging observations from a minimum of four previous crop years needs to be clarified for fruits and vegetables. For some fruit and vegetable operations in the more temperate climate zones, several crops are planted sequentially in the same calendar year. In light of this, we recommend that the yield estimation for such crops be from four consecutive crop plantings rather than from four continuous crop years.

In summary, we believe both the CFSA offices and private insurance agents have made valiant efforts in the first year of a new program. We stand firmly behind an actuarially sound crop insurance program, but hope Congress will eliminate some of the trouble spots, especially the mandatory coverage provision. Thank you for the opportunity to testify.

Testimony of
Bob Odom, Commissioner
Louisiana Department of Agriculture and Forestry
before the
House Agriculture Subcommittee on Risk Management and Speciality Crops
March 28, 1995

re: Federal Crop Insurance Program

Good afternoon Mr. Chairman, members of the Subcommittee. I am Bob Odom, Commissioner of the Louisiana Department of Agriculture and Forestry. I appreciate the opportunity to appear before you today concerning the new Federal Crop Insurance Program.

The new program is being implemented for the 1995 crop season, thanks to you and other members of Congress who were instrumental in passing the Federal Crop Insurance Reform Act of 1994. I commend you for your action last year in giving the farmers a greater measure of achieving financial protection against unavoidable causes of loss through a reformed crop insurance program.

I also would like to compliment Kenneth Ackerman, Manager of the Federal Crop Insurance Corporation, for his foresight and dedication to ensure that a program was in place for the 1995 crop season. Ken has been very responsive in trying to meet as many needs as possible during the first year of implementation and I commend him for his effort.

My testimony today will be a Louisiana perspective, as I see it, as to how the program is working in Louisiana. My perspective is based on first-hand knowledge, knowledge of those administering the program, and from farmers receiving the benefit of the program.

As you know, the program was developed and is being implemented on a rather fast

tract in order to insure the 1995 crop. The crop insurance information program has been a very coordinated effort in Louisiana between my office, the Consolidated Farm Service Agency, Rural Economics & Community Development, Louisiana Cooperative Extension Service and farm organizations, such as the Louisiana Farm Bureau Federation and American Sugar Cane League. There have been over one hundred (100) meetings held in Louisiana with farm groups to discuss crop insurance, how the program works, and the importance of the linkage requirement. Eighty-nine (89) of these meetings were jointly sponsored by the CFSA, RECD and the Cooperative Extension Service. As a result of this coordinated information program, sales have gone very well in Louisiana, with CFSA selling 13,000 policies in addition to sales made by the private insurance companies.

The most significant item to make a successful program, and one that is actuarially sound, is proper insurance adjustment with quality inspectors. It is my opinion that this is still the weakest link in the program, in that adjusters for the private companies report to them and the federal adjusters report to CFSA. If a single pool of adjusters were available, reporting to one supervisor, the program would be more uniformly handled. Equal treatment would be received by farmers and the program would be made actuarially sound.

Other items I see that need attention are as follows:

1. Actual Production History (APH) yields is still somewhat confusing and needs to be clarified so that both the private and federal sectors are handling this in the same manner. The method of determining APH yields should be uniform throughout the program. This will make it easier for farmers to understand.

It is my recommendation that APII yields be determined only by the CFSA, regardless of whether the farmers purchase the basic catastrophic level of crop insurance through the CFSA or private companies. This would ensure uniformity that is needed.

2. Spot checking and oversight accountability needs to be a vital part of the program to make all adjusters accountable.
3. The Noninsured Assistance Program (NAP) procedure must be developed soon to require that producers of noninsured crops report acreage and loss in a timely manner. This will ensure that we are not trying to administer a disaster program many months after the occurrence.
4. Broadcast soybeans should be an eligible practice in the State of Louisiana, and any other state that uses this planting practice, since a large acreage of beans are planted in this manner. Currently, only soybeans that are drill planted are covered. In many parts of our state, the Best Management Practice (BMP) is to plant beans by broadcast rather than by drill and this should be an insurable crop.
5. Specialty crops should continue to be added as insurable crops for catastrophic insurance coverage in as many parishes (counties) as possible, as soon as possible, in order to provide better protection from a disaster on an individual basis.
6. Lastly, several farmers in Louisiana have received letters from the Federal Crop Insurance Corporation initiating debarment

proceedings. We need to know immediately the impact of these proposed debarments. If these farmers are ineligible for crop insurance, then immediately the CFSA offices, lending institutions, seed and fertilizer dealers, and landowners need to be notified that they are ineligible, therefore making them ineligible to participate in any of the commodity programs.

Overall the coordinate effort is working in Louisiana. The program must succeed in order to assure farmers they have some type of financial protection in the event of a major natural disaster. It is very important that the program be creditable since many critics will be watching to determine the success or failure of this program, which could in turn impact your ability to write a successful farm bill this year.

Mr. Chairman, thank you for the opportunity to present my perspective on the new federal crop insurance program.

Statement by
Rod Gangwish, President
National Corn Growers Association
on behalf of
American Soybean Association
National Association of Wheat Growers
National Corn Growers Association
National Cotton Council,
and
USA Rice Federation
before the House Agriculture Committee
Subcommittee on Risk Management and Specialty Crops

March 28, 1995

Good afternoon. I am Rod Gangwish, president of the National Corn Growers Association. I am here today on behalf of NCGA, the American Soybean Association, the National Association of Wheat Growers, the National Cotton Council, and the USA Rice Federation. We appreciate this opportunity to comment on the crop insurance program. Our organizations supported crop insurance reform as a means to lower premium rates and make crop insurance more affordable for our members. The trade-offs came in the elimination of ad hoc disaster assistance and the linkage with farm program benefits. We continue to support reform as the best long-term solution to protect farmers from weather-related crop losses.

We have worked closely with the Risk Management and Farm Program divisions of the Consolidated Farm Service Agency (CFSA) to implement this new program. We all recognized that it was essential to reach as many farmers as possible with good information before program sign-up began. We realized that problems were inevitable during the first year, and although none of our organizations can claim total satisfaction, we have found CFSA to be helpful and willing to work with us to find solutions to our members' problems.

One of the hallmarks of reform has been the reliance on actual production history (APH) for catastrophic coverage. However, it takes a tremendous amount of time and effort to compile accurate production records for every crop and every farming operation. We expect this first year to be the most frustrating for farmers, county CFSA personnel and crop insurance agents. The problems should diminish next year when most records should only have to be updated.

The biggest concern for our organizations was the early sales closing dates. In some areas, by the time farm program sign-up began the crop insurance sales closing dates would have passed. We were concerned that if farmers were made ineligible for farm programs because they had missed an earlier crop insurance deadline, that the reform would have to be dismantled before it even began. To address this concern, Risk Management established a late application procedure for catastrophic coverage through the last day of farm program sign-up. We had requested even greater leniency to extend the sales closing date for buy-up policies to compensate for the delays in getting information about the new program to farmers, but we are satisfied that the late application procedure will enable most participants to remain eligible for farm program benefits.

We would encourage Risk Management to review all sales closing dates to establish dates that are realistic for each crop in each area. In some areas sales closing dates fall well before planting dates, while in other areas planting would usually be completed before the sales closing date. For example, Texas and Montana had the same winter wheat sales closing date of April 28, while the Texas harvest is only a matter of weeks away and the Montana winter wheat is only beginning to emerge from the ground. Farmers want a rational and equitable system. If current law is too restrictive to correct discrepancies, then Congress should act to correct the problems.

Administration of the linkage between catastrophic coverage and government programs has been a nightmare for too many farm operators, tenants and landowners, and inequities have occurred. If a producer owns the land, he or she pays only one \$50 fee; however, if the producer crop share leases the land, that same tract of land may be charged multiple \$50 fees based on the number of landlords. These fees do not relate to the size of the tract of land, but are often the result of the number of times that land has passed through estates. Also, frequently a farm with a single farm number is located on the boundary line of two counties with the farm extending into both counties. In such cases, the producer must pay separate fees to each of the two county offices, even though all the farm records are administered through a single county office. In such case, the farm should be required to pay a single fee to the county committed with which the farm records are located. Reform is badly needed.

An additional linkage problem arises when producers decide to add a crop after the sales closing date. Producers need the flexibility to take advantage of every cropping opportunity such as double cropping and prevented planting. A farmer who takes advantage of favorable weather to produce wheat behind a cotton crop should not lose

cotton program benefits just because the wheat is not insured. Further, wheat producers cannot choose if they will plant an alternative spring crop, such as sunflowers, dryland corn or proso millet, until they see if spring moisture will be adequate to germinate the crop. The producer needs to have the ability to sign up for a spring crop and designate which crop will be produced at the normal certification date. A farmer who is prevented from planting the intended crop should not be discouraged from planting an alternative crop that is not insured. The regulations to implement linkage must allow producers to make the cropping decisions that enable them to derive the greatest profit from their farming operations.

One of the continuing frustrations with crop insurance has been the annual battle to establish the market price election that accurately reflects expected harvest prices. The current system relies more on projected season average prices than on futures markets or historical spot market prices. The private sector offers market value protection as a federally reinsured option. Risk Management should explore the possibility of offering market value protection as the market price election. If a solution that is fair to producers cannot be found, Congress should intervene and establish the criteria to set the market price election.

Crop insurance will rely much more on producers' actual production records rather than the outdated T- yields. T (transitional) and D (determined) yields are the yields that are used when a producer cannot document production in a given year. In the case of corn, a T-yield is computed by multiplying the corn program yield times a T-factor, often 90 percent. Because program yields have been frozen since 1985, 90 percent of those yields is a ridiculously low yield for most corn farmers. Although a four-year APH eliminates much of the need for T- or D- yields, these yields will still be used when the producer does not have records, for example, when land is added as a new unit, or when the insured crop was rotated off a unit and the producer does not have records for four years when the crop was grown on that land. We believe that Risk Management can establish transitional yields that more accurately reflect expected yields and that will not jeopardize actuarial soundness.

CFSa has decided that a producer cannot receive both a prevented planting crop insurance indemnity and a 0/92 prevented planting payment. This restriction seems inconsistent with Congressional efforts to include prevented planting coverage for most crop insurance policies and to provide for guaranteed deficiency payments on 92 percent of payment acres in cases of prevented or failed acres rather than the standard 85 percent. Congress should direct CFSa to reverse this decision.

Finally, Risk Management should reinstate the "good experience discount" as an incentive for producers with better loss histories. If a producer's APH demonstrates a good production history, then that producer should be eligible for a lower premium.

Thank you for giving us the opportunity to testify on behalf of American farmers. I will be happy to answer any questions.

MONTEREY COUNTY

AGRICULTURAL COMMISSIONER

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RICHARD W. NUTTER

AGRICULTURAL COMMISSIONER
ADMINISTRATOR OF WEIGHTS & MEASURES



**Statement of Richard W. Nutter
Monterey County Agricultural Commissioner
House Agriculture Subcommittee on Risk Management
and Specialty Crops**

March 28, 1994

The purpose of my testimony is to provide an overview of Monterey County Agriculture, the effect of the disastrous flood and the impact on Farmers and their ability to recover.

It is important to understand that Monterey County is the leading vegetable crop producing county in the nation and we rank number four in overall agricultural production nationally.

We are the nation's leading producers of the following crops:

Artichokes	Head & Leaf Lettuce
Broccoli	Spinach
Cauliflower	Strawberries

In Addition we are in the top three in the production of the following:

Asparagus	Celery
Brussels Sprout	Cut Flowers & Foliage
Carrots	Garlic

During the summer months we produce from 40% to 80% of the nation's supply of these products.

Agriculture is our leading industry, valued at **Two Billion Dollars annually**. The losses suffered have an annual impact on our local economy of **six to Eight Billion Dollars**, and because of our involvement in Global Agriculture, there will be a world wide ripple effect of this disaster.

The vegetable crop industry is unique in that there are no Governmental Price Supports, no Federal or State Water delivery system and operates entirely on supply and demand.

The floods of March 1995 occurred along the 80 mile length of the Salinas River and a major portion of the Pajaro Valley adjacent to the Pajaro River. We have estimated flood waters covered 75,000 acres of our nearly 300,000 acres of irrigated agricultural land.

Preliminary losses have been set at \$240,000,000 which includes damage to 41,00 acres of planted crops, losses of equipment such as tractors, irrigation systems, damage to wells, and structures. The most severe impact has been to the following crops:

Artichokes	1,120 acres	\$ 6,320,000
Broccoli	2,429 acres	\$13,100,000
Cauliflower	1,660 acres	\$10,093,000
Lettuce	5,165	\$34,081,000
Strawberries	1,090 acres	\$41,780,000

A large portion of Agriculture is comprised of **Family Farms**. However, many are very large and do not fit the traditional definition.

All of our crops are labor and capitol intensive and many growers are highly leveraged and have been fatally impacted by the disaster.

Example of production costs are:

Head Lettuce	\$2,000 per acre
Strawberries	\$10,000 to \$12,000 per acre

There is a segment of this industry made up of ethnic minorities who farm small acreages, have a language barrier, and are not eligible for significant assistance. They are confused and need direction.

We are particularly concerned about assistance for Non-Insured Agricultural Products. Our concerns area as follows:

1. Because our Agriculture is financially intensive most of successful Family Farms are not eligible because of the Gross sales Mean Test. The maximum loss payment of \$100,000.
2. Limited coverage - 35% Loss Production
3. No provisions for Livestock
4. Limited coverage for Greenhouse Operations
5. Family Farm definitions needs clarification
6. Coverage should be expanded so all producers have equal coverage.
7. Coverage should include Losses of Crops, Agricultur Infrastructure and Farm Land.
8. Public Service announcements should be aimed to inform eligible Growers. Bilingual announcements should made.
9. Clarification of the term "area".
10. Multiple plantings are covered as one year. A grow could lose entire spring planting and not suffer a 50% loss.

STATEMENT OF THE KENTUCKY FARM BUREAU FEDERATION
TO THE
SUBCOMMITTEE ON RISK MANAGEMENT AND SPECIALTY CROPS
OF THE HOUSE COMMITTEE ON AGRICULTURE
REGARDING IMPLEMENTATION OF THE
FEDERAL CROP INSURANCE REFORM ACT OF 1994

PRESENTED BY MARSHALL COYLE, 2ND VICE PRESIDENT
KENTUCKY FARM BUREAU FEDERATION
MARCH 28, 1995

Mr. Chairman and members of the subcommittee, I want to thank you for the opportunity to testify on the implementation of the Federal Crop Insurance Reform Act of 1994 on behalf of the Kentucky Farm Bureau Federation and its 362,000 member families from across the Commonwealth.

My name is Marshall Coyle and I am the 2nd vice president of the Kentucky Farm Bureau Federation and chairman of Farm Bureau's Tobacco Advisory Committee and tobacco farmer from Bath County, Kentucky.

As a tobacco farmer and representative of Farm Bureau, I want to share with you our thoughts about the program, its implementation at the local level and offer some constructive suggestions for your consideration.

We recognize that prior to the Act's passage, producers were often faced with uncertain and inequitable disaster assistance programs. Producers of all crops including tobacco had no way of knowing in advance what level of assistance they would receive in the event of a crop disaster.

We also acknowledge the expectation of receiving disaster assistance in a poor crop year reduced the incentives for producers to carry crop insurance which further undermined participation in the program and its actuarial soundness.

It is for these and other reasons that the Kentucky Farm Bureau supports the Act and has been very active during the past three months publicizing its key provisions and encouraging farmer participation in the program.

We would like to compliment the staff of Kentucky's Consolidated Farm Service Agency for their tireless efforts in disseminating accurate information concerning the Act, and assisting farmers in complying with its provisions.

To date, USDA has sold 53,334 crop insurance policies on 82,102 crops to Kentucky farmers. We estimate that private insurance companies have sold an additional 25,000 policies.

Tobacco is a unique crop frequently produced on small plots of land often of 5 acres or less. The result is that small amounts of tobacco acreage can have several shareholders and are often within the same family.

Based on these and other considerations, we would like to offer the following recommendations to be implemented for the 1996 tobacco crop year for your consideration.

- * Make the final CAT purchase date for burley tobacco to coincide with the final leasing deadline of July 1.
(Presently, very few, if any, leasing or planting decisions are made by the current March 15 deadline.)
- * Deduct the \$50 administrative fee from the proceeds at the time of sale. Farmers currently have fees such as the no-net cost program assessment and other deductions withheld at the time of sale. This is a procedure farmers, warehousemen and USDA are accustomed to and familiar with. (Farmers would receive notification with their quota notice the crop insurance administration fee would be deducted at the time of sale unless the producer declines the insurance before the crop is planted.)
- * Coverage for tobacco by farm, not by producer. All producers on the farm would be covered. Any claims would be prorated between multiple producers based on their share of the crop.
- * Implementation of a graduated administrative fee scale based on the acres covered by insurance. The current program embraces a "one size fits all" philosophy and creates tremendous inequities between small and large tobacco producers. Should a farmer who produces 1 acre of tobacco pay the same administrative fee as a farmer who produces 100 acres?

Finally, some have suggested exempting tobacco altogether from the requirements of the Act. We disagree and believe such suggestions are reactionary, and based on current inequities in the program. We believe that exempting tobacco could send an incorrect signal that price support is not important to tobacco farmers.

In summary, Mr. Chairman, we feel the Federal Crop Insurance Reform Act of 1994 has many attractive features and the basic ideals behind it are sound. We hope you and other members of the subcommittee will give consideration to our suggestions in order that it can be enhanced for both farmers and the government in the years ahead.

Thank you for consideration of our views.



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**TESTIMONY BY JIMMY WEST ON THE FEDERAL CROP INSURANCE
REFORM ACT OF 1994 BEFORE THE HOUSE SUBCOMMITTEE
ON RISK MANAGEMENT AND SPECIALTY CROPS**

Chairman Ewing and members of the Committee, I would like to thank you for the opportunity to appear here today in behalf of the National Grain Sorghum Producers. I am a farmer and rancher from Roxton, Texas. Roxton is approximately 90 miles northeast of Dallas. I normally grow 1400 acres of fall planted wheat, 500 acres of sorghum, 300 acres of corn, and raise purebred Beefmaster Cattle.

For the past 8 years, I have purchased multi-peril crop insurance and have participated in the Acreage Reduction Programs (ARP). I was glad to hear that this year crop insurance would be upgraded to replace the need for ad-hoc disaster programs. This year's policy is different from past years because it automatically covers late planting and prevented planting of crops. When I purchased this upgraded insurance, I was told that prevented planting and failed crop acres would be eligible to participate in the farm program or be allowed to plant a ghost crop (a crop not eligible for USDA benefits) on affected crop acres. Disaster programs in past years have allowed producers with failed crop acres to receive a crop insurance indemnity payment, participate in farm programs, and receive a disaster payment. Also failed crop acres could be planted to a ghost crop.

On November 16, 1994, the Consolidated Farm Service Agency (CFSA) published a rule in the Federal Register allowing producers in counties not providing crop insurance, to receive a crop prevented planting payment, or a failed crop payment, and the option to participate in the ARP (0-92) or plant a ghost crop. Another provision allowed insured crops that were prevented from planting to enroll in the 0-92 program. Other eligible acreage had to enroll in the 0-85 program.

This year I took out the maximum crop insurance coverage of 75% on all my crops. I paid a premium for 4 crop specific policies covering wheat, corn, sorghum, and soybeans. Again, crop specific prevented planting and failed crop acreage coverage is automatically included and not optional. I fully believed I was paying for a policy that would pay for losses if I was prevented from planting a specific crop during that crop year without jeopardizing program participation. Federal Register Sec. 1413.121 (b) provides, *"In order to obtain failed acreage credit or prevented planting credit, the operator must file an application for disaster credit on form ASCS-574, Application for Disaster Credit. For prevented planted credit, the operator shall:.. (5) Not have later planted an acreage of the same crop in the same program year for which the ASCS-574 is filed. If such acreage of the crop is later planted, the ASCS-574 will be canceled for this planted acreage"*.

I purchased crop insurance to reduce my risk, to participate in farm programs, and get crop financing. In the fall of 1994, I was preparing to plant 1400 acres of wheat. I had prepared and fertilized 450 acres and started planting on October 8, 1994. On October 10, it started to rain

I managed to get 160 acres planted; but the fields were very wet, and I couldn't move the drill until March 15, 1995. The following are my expenses:

• Rent on 1400 acres @ \$20/ac. =	\$28,000
• Land preparation on the 450 ac. @ \$20/ac. =	\$ 9,000
• Land preparation on 950 ac. @ \$10/ac. =	\$ 9,500
• Fertilizer for 450 ac. @ \$32.40/ac. =	\$ 14,580
• Fertilizer application 450 ac. @ \$5/ac. =	\$ 2,250
• Seed 600 bu. @ \$5.00/bu. =	\$ 3,000
• Seed treated with Boyton 30 -- 600 bu. @ \$10/bu. =	\$ 6,000
• Bag and store treated seed 400 bu. @ \$2/bu. =	\$ 800
• Conservation compliance provisions (weed & erosion control) on 1240 ac. @ \$25/ac. =	<u>\$31,000</u>
Total Expense	\$104,130

Income, assuming 160 ac. makes an average crop:

• 160 ac. @ 40 bu./ac. @ \$3.30/bu. =	\$21,120
• Deficiency payments 160 ac. x 85% x 40 bu. @ \$0.70/bu. =	<u>\$ 3,808</u>
	\$24,928
Less harvest costs \$160 ac @ \$15/ac. =	<u>< \$ 2,400 ></u>
	\$22,528

Crop insurance prevented planting indemnity payment:

1240 ac. @ \$30/ac. =	<u>\$37,200</u>
Total Income	\$59,728
Total Expense	<u>< \$104,130 ></u>
TOTAL LOSS	<u>< \$44,402 ></u>

I am told that if I accept the prevented planting indemnity payment of approximately \$37,200, I will not be eligible to participate in the USDA farm programs (0-92), or plant a ghost crop on the prevented planting acres, thereby resulting in a loss of \$44,402. I really don't understand! One of the reasons I purchased crop insurance was to be eligible to participate in USDA farm programs for the 1995 crop year! The only way CFSA will allow me to participate in 0-92 or plant a ghost crop on my prevented planting acres is to agree not to accept my insurance indemnity payment. I paid for that insurance to reduce my risk and provide a safety net for my operation -- now I am being deprived of my benefits.

If my planted acres fail, which is likely -- due to flooded field conditions, I will be allowed to receive my insurance indemnity payment on 160 crop acres, receive a regular deficiency payment on 85% of the planted acres, and have the option of planting a ghost crop. Again, I don't understand! I thought the Crop Insurance Reform Act of 1994 mandated equal program opportunities for failed crop acres and prevented planting crop acres. I agree that a lower indemnity payment should go to the prevented planting crop but those crop acres should be allowed to participate in the farm program or be planted to a ghost crop. We, the farmers of Northeast Texas, need your help. Thank you, Mr. Chairman. I will be glad to answer any questions you may have.

Testimony of
Sharon K. Heaton
on behalf of the
National Association of Professional Insurance Agents
Before the Subcommittee on
Risk Management and Specialty Crops
of the
House Agriculture Committee
Regarding Implementation of the Federal Crop Insurance Reform Act
March 28, 1995

Mr. Chairman, Mr. Rose, and members of the Subcommittee, on behalf of the National Association of Professional Insurance Agents, I thank you for the opportunity to present our views on the Federal Crop Insurance program and its future.

The National Association of Professional Insurance Agents, PIA, is a trade association representing more than 180,000 independent insurance agents, brokers and their employees through out the United States. PIA members own and operate their own agencies. We sell and service all kinds of insurance but specialize in property-casualty lines such as auto, homeowners and business coverages. As independent business owners, PIA members can provide consumers with a choice of coverages from several insurance companies.

I am a vice president of PIA National and a member of its crop insurance task force. PIA

members have worked with the federal government -- including the Federal Crop Insurance Corporation and the Consolidated Farm Service Agency -- industry representatives and farmers to assist in the development and fine tuning of the Federal Crop Insurance Reform Act. We appreciate the opportunity to be a part of this important, continuing discussion.

Mister Chairman, we commend you for conducting this hearing on the Federal Crop Insurance Reform Act. The program is, in large part, achieving its goal of helping farmers assess their risk-management options. We applaud the substantive benefits it will offer the farmer, the federal government, the crop insurance industry and, ultimately, the consumer.

Since March 15, 1995 -, the sales closing date for all levels beyond the catastrophic level, also known as "buy-up" policies on crop insurance -- the farmers, agents and local CFSA offices in the area which I reside are working well together to get the program off to a proper start. Educating farmers has been our primary mission since the reform program began in earnest in early January. I am certain that, when the program is fully implemented and working with all of the "glitches" ironed out, we will see a positive and healthy crop insurance marketplace. We are grateful for the good work that this Subcommittee did last year to implement this partnership between private and public sectors. I assure you, the benefits that are resulting from that partnership will not go unnoticed.

Before I go any further, I would like tell you a little bit about myself and the Heaton Agency, which I own. First, I was raised on a farm and own a farm outside Graymont, Illinois. This has been essential in helping me understand and communicate with my farmer clients. Sixty-six percent of our book of business is agriculture-related. I employ four people who are all licensed in multiple lines of insurance. My agency is in Pontiac, Illinois, a town of 11,300

people. I think it is safe to say I am a rural insurance agent with a unique perspective as a farmer, as well.

CHANGE IS NOT IMMEDIATE

Keeping with the objectives laid out in the Federal Crop Insurance Reform Act, it is important for us all to remember that change takes time.

The new program has already changed the mindsets of many farmers who previously did not believe in or understand the benefits of risk management. Their reception of the new changes has been good -- but only when independent agents like me are able to spend the time with them to educate them on the need for risk management. Already we have seen thousands of new policy holders sign up. Nevertheless, I believe that only after the reform has been in place for a few years will the long-term, positive effects be apparent.

As members of one of the most important Subcommittees to address agriculture issues in the United States House of Representatives, you will hear differing opinions about the program in its first year. To be sure, some will say there wasn't adequate time or education to grasp the program. Others may want you to believe that they didn't know about the program and, therefore, have a right to their yearly disaster payments. But I urge you to stand behind the program, its implementation and regulations.

We in the field -- the Consolidated Farm Service Agency, companies and agents -- have done everything we can to make crop insurance available to all.

You are already facing your first test in this regard. The California floods of early March devastated certain crops, most particularly the avocado crop, which is uninsured and covered only under the Non-insured Assistance Program, or NAP. Early reports indicate that many farmers'

avocado crops have been wiped out.

This is a clear instance where the federal government must enforce the laws Congress has passed regarding federal disaster payments. However harsh, this action will, in the end, be beneficial to both the program and the federal government. Now is the time for the federal government to impose discipline on its disaster assistance programs.

IMPLEMENTATION OF FCIRA

The FCIC did a good job considering the short amount of time it had to implement the program. Nevertheless, there are problems worth reviewing even at this early stage in the program.

Sales Closing Dates

PIA, along with virtually all other groups within the industry, felt that the March 15 sales closing date for farmers to purchase higher coverages than the catastrophic level was premature and would hamper the success of the overall program. Unfortunately, our concerns were not addressed. The March 15 date has now come and gone, putting an undue hardship on farmers.

A majority of agents, including myself, have spent a tremendous amount of time explaining and educating our farmer clients about the crop insurance reform program. This involves both our current policyholders and new policyholders who had not previously been a part of the crop insurance program.

Complexity of Changing Regulations

I cannot stress enough the important work of the FCIC and its manager, Ken Ackerman. His contributions to the development of the reform programs are significant. We appreciate his efforts.

I must tell you, however, that the regulations on complex issues such as the extension on late-filed applications, entities, new acreage reporting dates, etc., did not reach many of us until the beginning of March -- two weeks shy of the final sales closing date. It has been virtually impossible to keep up with the endless changes generated by the FCIC in order to communicate them to our clients. This is important because the independent agent, a vital, direct link between the farmers, the companies and the FCIC, faces a great challenge in educating farmers on these seemingly ever-changing rules and regulations of the Act.

Further, going back to already insured clients and relaying new and unique changes that affect their policies cause us to spend even more time making changes, amending coverages and fixing the broken client relationships that arise.

Surviving Reorganization

Notwithstanding all the fine-tuning FCIC has accomplished in the last few months, it has taken place in a difficult environment; it came at time when the USDA structure, itself, was undergoing massive reorganization. As the county offices survive these changes, they are at the same time thrusting new and often misinformed staff into the world of advising and selling crop insurance policies. We are uncertain as to what type of training these staffers actually received. With a new program, new staff and a new structure, you can just about imagine the chaos that has taken place in some areas around the country. Too often, misinformation has seriously strained long-standing client relationships agents worked very hard to establish.

In my own area, the partnership between CFSA offices and independent agents works well. However, CFSA is simply not capable of understanding all the complexities of the crop insurance program. In fact, many CFSA representatives admit to their lack of understanding the

intricate nuances of the program, and they refer potential farmer clients to the independent agent.

Unfortunately, this is not the case in many other areas. What I hear from other agents across the country is that one false word on the program can spread like wildfire through the farmer community and may take years of educating by the independent agent to correct the problem.

Further Simplification Needed

PIA continues to work with the FCIC on ways to streamline the reform efforts. Last year, as the Federal Crop Insurance Reform Act was being developed, we worked to simplify the administrative section of the Act. Yet, the implementation regulations and procedures promote even more complex administrative procedures.

There is still a tremendous amount of work in this area that we must accomplish together. We urge the FCIC, companies and other agent groups to join with us in simplifying the program even further and bringing a common sense approach to the way we do business. We applaud the ideas presented here today from some of the groups who are testifying before you, and we look forward to a joint discussion on ways to implement these new ideas.

AGENT DELIVERY VS. CFSA

We feel the independent agents are doing a great job responding to the needs of our farmer clients. This first year will certainly require some patience and self-motivation on the part of the farmer. Not everyone will be satisfied. Some farmers will take longer than others to become informed about the importance of the program. Some will remain unconvinced that reform is for the better. But we believe most farmers will eventually take charge of their risk management.

For that to happen, we feel the most efficient and effective avenue is to work through the private sector. CFSA can not and should not be bogged down in an extensive and complicated explanation of insurance when the independent agency system is already in place to do that. This argument especially holds true in the new era of "less-government, more private enterprise" which many of you advocate.

Mister Chairman and members of the Subcommittee, we urge you to hold the line on future growth and expansion of the CFSA offices for the purposes of crop insurance sales. Their workload in addressing farm programs and other agricultural questions is already overwhelming.

Additional funding spent on the growth of the crop insurance sale function within CFSA will create a redundant and unnecessary delivery system. The private sector is well established and available. We ask you to remember in the future that it is insurance agents -- like PIA members -- who are closest to the farmers in the delivery of crop insurance.

CONCLUSION

PIA members are enthused about the benefits the crop insurance reform program will offer our farmer clients. They are the main reason we are here in the first place. Before the program came about, many of these farmers were our clients for other property-casualty coverages of their business -- to protect their physical property, equipment and even their livestock. Rounding out their risk-management needs by acquiring crop insurance provides an overall safety net for farmers protecting their important assets. It just makes good business sense.

Our goal is to get as many farmers in the program as possible. One suggestion we have is to provide a greater subsidy or apply more credit to the higher levels -- 65 to 75 percent -- so that there will be a better spread of risk. Better coordination of dates will also be helpful to both

farmers and insurance agents.

PIA is pleased that Congress took the bold step in saying no to continual disaster aid payments to farmers. We are pleased that Congress recognizes the importance of involving the private sector in the reform program.

Our farmer clients are stepping up the plate and taking their share of responsibility to cover their risks, and, in most cases, the CFSA is working with us by referring farmers to their insurance agents for further risk assessment.

We look forward to working with the CFSA to establish full participation in the program. We must establish and maintain a close working relationship during the first several years of the program so that it can stand up to the ultimate test -- a major disaster. Then, and only then, will we be able to see a true picture of what the crop insurance marketplace should be.

In the end, I'm certain the program fashioned by the 103rd Congress will benefit companies, independent agents, the federal government and, most important, our clients: the farmers.

PIA believes a workable crop insurance program will only come about through time, commitment and consistency. We pledge our support in working with you, Mister Chairman, the Subcommittee, the USDA, the FCIC and the insurance industry to achieve this goal.

Thank you again for the opportunity to testify before your Subcommittee today. I look forward to answering any of your questions.

National Crop Insurance Services

Mr. Chairman:

I want to thank you for the opportunity to appear before you today. On behalf of the member companies of the National Crop Insurance Services organization, we want to express our appreciation to you and to the members of this subcommittee for their interest in the important issues regarding the Federal Crop Insurance program.

Approximately 40 companies offer some form of crop insurance in the United States and they compete vigorously for business. However, all of these companies rely upon one organization for technical support and information in providing this coverage. That organization is National Crop Insurance Services. NCIS and its predecessor organizations have been serving the crop insurance industry since 1915. Offering insurance to cover crop damage due to natural hazards is complex and dependent upon more information and professional skills than can be economically assembled by any single company. Companies created and support an association, NCIS, to make the necessary skills and information available to the entire industry.

Companies writing crop insurance need various types of information to properly offer appropriate coverage. Crop risk information is needed in order to set adequate premiums; establish appropriate policy terms and conditions for each crop and location; develop accurate loss adjustment procedures for crop damage at any stage of plant growth; and determine underwriting guidelines so that crop risks may be fairly evaluated. This information is also critical for the education and training of agents and adjusters. NCIS provides exactly this type of service to our member companies.

Since statistics from a long period of time are needed for accurate rating, the development of an adequate statistical base can be accomplished only through the pooling of statistics at one source. NCIS has the crop insurance statistics on coverage provided and losses paid for the last 80 years from almost the entire industry. These statistics complement the professional skills available to NCIS through staff and through access to professional insurance industry personnel. This combination of skills and information allows us to effect sound crop risk management programs.

NCIS is also very active in developing loss adjustment procedure for the crops insured so that farmers can be compensated fairly for crop damage. NCIS provides key financial support for research at agricultural universities so that loss adjustment has now become a more scientific process. The research is conducted by land grant colleges and universities to determine the effects of damage on various crops under a variety of agronomic conditions. All of the research is performed in regions appropriate to the crops under the study. Every major crop and many minor crops have received research attention. Every effort is made to also obtain related research information and utilize this in maintaining a thorough knowledge of modern agricultural technology. This combination of data is of immeasurable value in developing crop damage formulas for use in the adjustment of crop losses.

NCIS also assists in the education and training of adjusters and field supervisors so that they may work closely with the farmers to measure the crop damage and to explain how the crops will respond over the remainder of the growing season even though severe damage may have occurred. Over 50 of these training sessions are conducted throughout the year with professional agronomists and experienced adjusters providing expert instruction in all phases of plant physiology, nutrition, diseases, insect damage and other subjects relevant to the assessment of crop damage. This kind of in-depth training, on a continuing basis, is essential for a competent adjuster. Over the years, these

schools have proved to be very effective in communicating new developments, recommended adjustment procedures, and in improving the ability of adjusters to determine more equitable loss adjustments.

Given our 80 years of experience in crop-hail insurance, our involvement in the Crop Insurance Act of 1980, and our frustration with ad-hoc disaster assistance, we view crop insurance reform as a major step in the right direction for agricultural policy. The Reform Bill is truly landmark legislation for agricultural risk management. Industry is excited about the opportunity afforded by Crop Insurance Reform. However, it is vital to understand that industry excitement and enthusiasm surrounding reform stems from an industry desire to deliver a sound individual insurance program to the American farmer. We believe strongly that crop insurance is a prerequisite to sound farm financial management. An insurance program promotes greater individual accountability and is consistent with the free enterprise system. This view also parallels the administration's position on related natural hazard's insurance policy and loss mitigation. Industry also believes that only a public and private partnership can provide an adequate safety net to the individual and good public policy for the American taxpayer. Industry has supported the development of the Reform legislation and continues to support the Reform implementation on the basis of providing individual insurance.

Admittedly, we are experiencing problems implementing the new reform program. Entering Reform, we realized that with such substantial changes occurring in a short period of time that problems were bound to occur. However, Industry and NCIS stand ready to support Congress and the Administration in carrying out the intent of this legislation. Industry is willing to work with all interested parties in successfully carrying out Crop Insurance Reform. The issues we would like to address today are consistency of delivery, program simplification, and program knowledge.

Consistency: Of major concern to the industry is consistent delivery of the crop insurance program. Consistency of delivery is important because it promotes fairness and equity among insureds. Consistency minimizes confusion and misunderstanding among farmers, CFSA offices, and the industry. Consistency of rules and procedures will also reduce overall program costs and allow an accurate assessment of program costs and benefits.

Simplification: Industry has continued to work with FCIC on program simplification. The delay in passage of the Reform legislation has impeded previous efforts to streamline the program but the industry, through NCIS, is continuing to work with FCIC on methods to simplify delivery while maintaining program integrity. Simplification will reduce program costs, result in more consistent delivery, and better serve the farmer.

Program Knowledge: Farmers who find themselves having to buy crop insurance for the first time need adequate information on the role that crop insurance can play in their overall risk management strategy. The farmer must be made aware that additional coverage provided by the private sector is available, and that this protection is a sound approach to risk management and a better alternative than the uncertainty of disaster assistance in past years. Even the county and state CFSA offices are struggling to understand the insurance principles that lead to sound risk management decisions for farmers. NCIS and the industry are eager to work with the CFSA to improve the farmer's understanding of crop insurance and its relationship to other USDA programs and to help the farmer select adequate protection for their risk management needs.

While the sales season on buy-up policies was just completed, we are still in the process of signing up late applicants for catastrophic coverage which will continue until April 28. It is still too early to determine exact policy counts and premium volume. We will be happy to share this information with you as it becomes available. In closing, we feel you might be interested in knowing some of the current efforts of NCIS in working through Reform implementation.

Industry, NCIS in particular, has made concerted efforts to improve the lines of communication between FCIC and individual state insurance departments through meetings held with the National Association of Insurance Commissioners (NAIC). The NAIC has formed a special working group on crop insurance to establish the proper regulatory role of both federal and state authorities. This process is vital if a successful partnership among private sector delivery, state and federal regulators is to be established and maintained.

NCIS, on a daily basis, is in contact with FCIC staff in Kansas City and in Washington, D.C. working through the complex issues of implementation. NCIS has dedicated staff specifically for the purpose of working with member companies and FCIC on these issues. We, along with the other trade associations testifying before you today, and in conjunction with FCIC, have established a Question and Answer clearing house at NCIS for resolving national and local issues as they arise during the implementation of this new program.

Through the Reform process, NCIS has provided FCIC and Congressional staff with analysis and data as input into the policy making process. NCIS has also established a planning committee to work on the future involvement of private industry in the delivery of all forms of agricultural risk management. Mr. Chairman, we will continue to make ourselves available at the request of FCIC or any Congressional member interested in agricultural risk management.

Testimony of

J. Rives Manning, Jr.
Federal Crop Insurance Representative
on behalf of the

Independent Insurance Agents of America

Before the House Agriculture Subcommittee on
Risk Management and Specialty Crops

Mr. Chairman, Mr. Rose and members of the Subcommittee, my name is J. Rives Manning, Jr. I appreciate the opportunity to testify before you today regarding the implementation of the "Federal Crop Insurance Reform Act of 1994."

My wife and I own and operate Halifax Farmers Service in Halifax, North Carolina. We write and service crop insurance for our clients in several North Carolina counties. I have been writing Federal Crop Insurance and Multi-Peril Crop Insurance since 1981, ever since independent insurance agents have been able to write the coverage. I have seen and been a part of many of the changes and improvements in the crop insurance program and have the gray hairs to prove it.

I serve on the Crop Insurance Task Force of the Independent Insurance Agents of America (IIAA) and as its Federal Crop Insurance Representative. As you know, IIAA was a vocal and strong supporter of the important crop insurance reform legislation passed last year by the House Agriculture Committee. In fact, insurance agents across the country made their collective voice heard to help enact the bill and fend off some opponents of the proposal. Under Chairman Pat Roberts, Congressman Kika de La Garza and your leadership, this committee showed courage by ending the irresponsible manner in which our government funds crop disasters.

By placing the needed funds "on budget" and eliminating ad-hoc disaster payments, this committee built a crop insurance program that will work. Indeed, the House Agriculture Committee led the way in putting Congress on record as honestly paying for a crop insurance policy that emphasizes greater personal responsibility. The guiding promise to the public was that this new money—over a billion dollars a year—would be spent wisely and efficiently. In many ways, Congress and this committee, particularly, should be proud of the work they did last year.

However, we all understand that passage of legislation in Congress is just the beginning to successful reform. We all understand that far too often implementation of a law can fall short of the will of Congress. We all understand that the federal government can find many ways to waste money despite the best intentions of Congress.

As members of Congress struggle every day over how to best use taxpayer money entrusted to you. No other group of lawmakers will face the pressure this committee will confront in defending the federal resources allocated to agriculture programs. No doubt that to some budget cutters outside the agriculture community crop insurance may seem a ripe program to cut in order to achieve budget savings and shrink the government's involvement in agriculture.

The Independent Insurance Agents of America supports the appropriate role of the government in the Federal Crop Insurance Program. The Federal Crop Insurance Corp. (FCIC), the Consolidated Farm Services Agency (CFSA), companies, agents and farmers must work together since they all have a lot at stake in the program's success. Above all else, all parties have an obligation and a duty to deal with each other in good faith and abide by the spirit and the letter of the crop insurance reform bill. In my view, we also have a duty to talk straight about what is wrong with the program and where it can be improved.

New test for crop insurance reform

In this new, more frugal environment where taxpayers demand that the federal government do more with less, every federal program—agriculture related or otherwise—should expect the highest scrutiny and test over how efficiently it uses federal resources. At a minimum, federal programs should pass three tests:

- 1) Are they implemented in accordance to the will of Congress?;
- 2) Do they duplicate or needlessly waste money performing a service that the private sector can perform more efficiently?, and;
- 3) Are the regulations and requirements of the program interfering with the success of the program or adding cost to the bottom line for the customer or taxpayer?

To date, IIAA believes that *implementation* of last year's Crop Insurance Reform Act has fallen short of all these tests, specifically in the areas of

minimizing paperwork and maximizing private-sector delivery of the crop insurance product.

IIAA has worked closely over recent months with the Federal Crop Insurance Corp. and the Consolidated Farm Services Agency to work out the growing pains in this newly reformed program. IIAA believes both organizations are represented by hard working, dedicated people. However, IIAA also believes that the combination of a late release of the new program's regulations, inconsistent farmer educational efforts, and a stubbornness by FCIC and CFSA to abide by the spirit and **black letter** of the new crop insurance reform bill on private sector delivery and program simplification has left its success in jeopardy.

The Federal Crop Insurance Program is by definition a public-private partnership. The stated goal of this program is to get all farmers to carry crop insurance at the higher buy-up levels so they can adequately manage their risks. The more farmers who do so, the more actuarially sound the program can become. Since Congress has affirmatively recognized that only the private sector can and should perform this task, it is **common sense** for the federal government to do everything it can to allow the private sector to do the job. In short, all we in the private sector ask to continue in this partnership is that the FCIC and CFSA do what was asked of them in the reform act. So far, FCIC and CFSA have ignored the charge of the legislation on delivery and simplification issues.

In this new congressional era of releasing thousands of businesses across the country from the grip of needless government involvement, regulation and waste, how can Congress institute some discipline on FCIC and CFSA to force them to adhere to the crop insurance reform law? Congress got it right with crop insurance reform last year but perhaps the will of Congress needs to be made even more clear.

Today, IIAA would like to take this opportunity to announce that it will do everything it can as an association—including supporting new legislation—to **cut the red tape and get the government out of the delivery of crop insurance.**

CUTTING THE RED TAPE

This afternoon you have heard from every member of this private sector panel that this program is the most complicated, costly and heavily regulated line of insurance that exists today. For many insurance agents, the paperwork, time and complexity associated with the product make the return commission barely enough to cover the cost of doing business. Let me assure you, Mr. Chairman, insurance agents are not getting rich selling crop

insurance. While agents are providing an important service to the farmers of this country, it will be impossible for many to stay in the business as the expense reimbursement rate reductions that are mandated by the reform act for 1997 through 1999 go into effect, and as the program gets harder—not easier—to administer.

IIAA does not argue that the government must begin to spend less for the administration of this program. However, many of IIAA's members also cannot afford to stay in the crop insurance business under this shrinking reimbursement rate if the *program is not simplified*.

It's simple: If the federal government wants to cut costs, it also must cut the cost of doing business. The layered bureaucracy that the FCIC has placed on this program and the private sector is making many agents reevaluate their ability to stay in the crop insurance business. How the Congress enforces the minimizing of red tape—required by last year's legislation—will decide how many insurance agents will be able to stay on the crop insurance team. So far, under the implementation of the reform program, we have seen an increase in program burdens, not a decrease. Instead of being the model of government efficiency that the reform act had promised, implementation has become the poster child for continuing government inefficiency.

For example, the new FCIC requirement that an acreage report be signed is a hardship on many farmers and agents in North Carolina at a time when they don't have the extra time. This new requirement will not bring about any more accuracy than has been present in the past. Already, agents must make as many as three to four trips to a farm under the program's requirements for some insureds. This new requirement will add an extra trip to the farm at the expense of increasing costs to administer the program.

FCIC for years had a procedure where the acreage report information could be furnished by telephone. The acreage report was not signed but was sent to the insured along with a notice to check the accuracy and advise the agent within 10 days if it was not correct. This was very beneficial to both the insureds and to the agent force. It is also common sense. Unfortunately this is but one example of a long list of new requirements.

GETTING THE GOVERNMENT OUT

There can be no doubt that the rallying cry of the American public over the last year has been to get the government out of the business of complicating the nation's business. The undeniable, underlying thrust of last year's crop bill was to bring an end to costly, duplicative government delivery of federal crop insurance and thus lower the government's costs to operate the program. Every expert involved in crop insurance recognizes that the most

efficient crop insurance program is one that is reinsured by the FCIC, underwritten by private insurance companies, and delivered by private insurance agents. This system was writing over 92 percent of the crop insurance policies prior to 1995 and we believe that trend will continue. To date, the cost to the government to deliver the remaining 8 percent has been staggering.

To ensure the success of this program, this private sector trend has to continue because it will do the federal government little good for the millions of new crop program participants to be enrolled in the catastrophic level of coverage when a major disaster occurs. Should this happen, the farmer and the federal government would lose. The farmer loses because he or she only has 30 percent of their crop covered. The federal government loses because they only collected \$50 dollars per crop and would face massive payouts to farmers qualifying for additional disaster relief simply by carrying the lowest coverage.

The logical answer is to get as many farmers to cover their crops with an **insurance product** commiserate to their risks and to place the delivery of the crop insurance product in the sole hands of insurance professionals who understand the farmer's exposure, can deliver the product the cheapest, and have a **financial stake** in the satisfaction of the service provided to the customer.

At the end of the day, a bureaucrat has little at stake in the quality of their insurance advice. Under this program, a CFSA official's only mission is to get the farmer signed up with crop insurance to satisfy linkage requirements for the USDA Farm Program.

This is one reason why Sen. Bob Kerrey, along with many members of this committee, were adamant that CFSA delivery of crop insurance only be allowed if the Secretary of Agriculture could demonstrate a need for them to do so. Unfortunately, this provision was watered down and reversed to allow USDA to "choose" not to deliver the Catastrophic policies in areas where insurance agents and companies were adequately present. A "need" test was established in the Act to determine the appropriate blend of government delivery. This determination of "need" was left entirely to the USDA's discretion.

Agriculture Secretary-designate Dan Glickman said in his confirmation hearings last week that he had every intention of pushing CFSA toward private-sector delivery of crop insurance. While we certainly applaud this statement, we are also clear-eyed enough to realize that only congressional pressure will end the government delivery of crop insurance.

"Need" equals preservation of bureaucracy

As has been pointed out in this hearing today, the Department of Agriculture was permitted in the Act to offer catastrophic risk coverage "at the option of the Secretary that is based on considerations of need," upon the lack of presence of private sector agents and companies. This direction has been entirely glossed over by USDA.

USDA, to date, has apparently decided that adequate private-sector outlets for crop insurance do not exist anywhere in the country.

Instead of using the Kerry language to **minimize** government involvement as a way to save money on duplicative delivery costs, FCIC and CFSA have **maximized** their role in the delivery of crop insurance by exploiting the "need" loophole.

It is clear to me that the USDA has no intention of withdrawing from delivery unless forced to do so. In fact, the record so far demonstrates that the opposite seems to be true.

First, during the implementation of the regulations, CFSA floated a proposal to market buy-up coverages in 1000 counties it deemed to be "underserved" by the private sector. After closer examination and industry objection, the list was shortened to 100 counties and eventually to just over 20.

Many observers, including myself, saw this attempt to market the buy ups under the flag of "underserved" areas as nothing more than a beachhead to get into selling the buy up coverage that under the terms of the Act is to be handled exclusively by the private sector. Congress made private-sector enterprise responsible for this business for a reason: Private business can market crop insurance much more efficiently than inexperienced government employees.

Even in the 20 counties listed as underserved, many agents actually service the county or the area is a coal mine or other none crop area. Their names were simply erased from the records as servicing those areas just because they did not reside in the county.

Second, CFSA has asked Congress and the Administration for over \$50 million more this year to service the delivery of crop insurance and \$20 million more next year. This bureaucratic hunting for added money to deliver crop insurance is inevitable until the authority for all delivery is clipped. Like a weed, the growth in the direction of more—not less—government spending in the delivery of crop insurance will take over the

limited budget for this program. What the government, farmer and taxpayer will get for their money will be an inefficient delivery system with the majority of crop policies sold at the lowest levels.

This lack of cooperation to maximize private-sector delivery is troubling. In my estimation, not enough has been done to promote the buy ups and the private sector by FCIC and CFSA. The private sector should not be in competition with the government when it comes to getting the farmer into the highest levels of insurance. **The government should not be promoting the catastrophic coverage at the expense of the buy-up coverage.**

Mr. Chairman, I believe a question that needs to be asked is: Does the amount of CAT policies a CFSA office sells have anything to do with any performance rating or other "points" system within CFSA either on a state or national basis? If so, I believe this is a prescription for a 100 percent guaranteed finding of "need" in every county to preserve its funding or maybe even its existence.

Most efficient use of taxpayer money

I believe it is clear that the Department did not undertake the direction of the reform act calling for the Secretary to take into account "the most efficient and cost-effective use of resources, the availability of personnel, fairness to local producers, the needs and convenience of local producers and the availability of private insurance carriers" before asking for this additional money to cover delivery costs.

At a time when the Administration is "Reinventing Government," does it make sense to reinvent the wheel when it comes to delivering crop insurance? What sense does it make for the government to reinvent a private delivery system of over 20,000 insurance agents currently selling crop insurance. "There has got to be a better way!"

Worse yet, perhaps the Department did conduct this analysis and conclude that government spending to duplicate an existing, efficient, private-sector workforce was the "most efficient and cost effective use of resources."

Implementation Troubles

The implementation of the reformed program has had a shaky—at best—liftoff. Confusion, inexperience, and misinformation have been the norm, not the exception.

The local CFSA offices have not distinguished themselves in the delivery of information or insurance thus far. A big problem confronting farmers this year was a rash of misinformation at the local CFSA level.

Here are some examples:

Many farmers were told they needed to purchase the catastrophic risk coverage—or CAT—and then if they wanted other coverage that it would have to be placed “over the top” of the CAT policy. This is incorrect information.

Some farmers were told they didn’t have to furnish their production records but could use their ASCS Established Yields. In fact, without records ASCS must use 65 percent of those yields. This, too, is incorrect information.

Some farmers were told they could use their ASCS Established Yields to start with and then if they had a loss they could bring in their records and prove their yields and get better coverage. Mr. Chairman, a simple principle of insurance is that you can’t increase liability at the time of a loss. This also is incorrect information.

There have been delays in obtaining information on the new program and then there were confusing changes at the last minute. An example of this was when the cotton program was released in the middle of January the established price was 61 cents. Then around the end of January—and 15 days prior to the sales closing date for buy ups, but not CAT—FCIC increased the established price for cotton to 70 cents. This was an increase of 15 percent in the coverage and premium for buy-up levels one, two and three. It was a 15 percent increase in the coverage for CAT, but without any new costs. Another way to look at it is that this shift represented a 15 percent new exposure for the government with no new premium stream to cover this exposure.

It represents bad business and an unavoidable conclusion that CAT coverage is more attractive to a farmer. Logic like this has caused many farmers who had insured themselves in past years to buy down to CAT. Who could blame them?

In my own experience this year, I insure an 80- year-old landlord who rents several of his farms. He gets 25 percent and the tenants get 75 percent of his tobacco, peanuts, cotton, corn and soybeans. For about eight years I have written Level 2 MPC I on his tobacco and peanuts. I have talked to him several times and asked him to get his cotton production records so I could show him what type of coverage would be best for him to choose. I went to

see him the other day and he told me that he had been informed by the CFSA office that he had to have CAT coverage on all his crops and had to pay \$200 for the coverage, which he did. After the fact, he told the CFSA office that he had crop insurance on his peanuts and tobacco. He was told that if he could "prove" it they would refund him \$100.

Why are these examples important? Because it shows a basic lack of effort to explain the options to a farmer and advise them of the buy ups. It is an example of what is happening nationwide. There seems to be a mentality of "just do it" when it comes to pushing farmers to CAT coverage. Why? Because it's easy. It is also a disservice to the farmer.

These are but a few examples. Unfortunately, this misinformation and FCIC prejudice for the CAT program is a serious obstacle to getting farmers into higher levels of insurance. When a local CFSA office tells a farmer that all he needs is the CAT coverage and makes no effort to inform this farmer of the other products or the wisdom of higher levels of insurance, the government and the farmer are ill served.

The local CFSA office is the "government" to most farmers. When the "government" tells the farmer something they believe it to be correct. It is hard to compete when the "government's" facts don't resemble the guidelines of the program. Who really gets hurt by this? The farmer. Especially if his crop comes up short and he doesn't have the coverage he needed and thought he had. The FCIC also gets hurt financially because it is exposed to greater financial risk because farmers are only purchasing bare-bones coverage.

New legislation needed

For these reasons, Mr. Chairman, IIAA would urge the committee to consider legislation to restructure the test for government delivery of crop insurance.

Legislation should be passed this year to require that the CFSA & FCIC withdraw entirely from the delivery of the catastrophic risk protection except in special circumstances.

For these special, truly underserved counties, the Department of Agriculture should demonstrate a need—by county—for each CFSA office to be able to offer catastrophic risk coverage. In short, a strict burden of proof should be established for any government involvement in the delivery of crop insurance. In conjunction with that involvement and consistent with the recent push to establish a cost-benefit analysis of all federal regulations, the

public should know exactly how much it costs to train, equip and staff the county offices where the coverage would be available.

Instead of the Department asking for tens of millions of additional dollars a year to deliver the program, the federal government could begin to save taxpayers this money *plus* all the existing costs of government delivery of crop insurance. More importantly, more farmers would carry "*real*" insurance.

We believe this approach has merit. It would replace the standard operating procedure at CFSA, which currently is that they must make catastrophic crop insurance available in *every* single CFSA county office in the country regardless of need or cost to taxpayers.

It would force the type of evaluation of the need for government delivery required by the reform act, but so far ignored by the Department. It would place a strict test on using taxpayer money to perform a private-sector service. As with any market-based product, there is a diminishing return to government involvement. We believe there needs to be a serious harvest of government regulations and activity in the crop program.

Put savings back into program

The money saved by eliminating the delivery-related budget of the FCIC and CFSA could be returned to the crop program in the form of increased subsidies for the buy-up coverages. As you are aware, the goal of the Act was to replace ad-hoc disaster payments with the CAT policy and increase subsidies on the premium levels for buy ups. So far, the buy-up premiums have not been as attractive to farmers, and in some cases not lower than MPCI premiums prior to reform. Putting the savings from ending government delivery back into the buy ups would be a sound investment.

CONCLUSION

As I said at the outset, I believe the Act can work. I believe the implementation will be better next year as information on the new program is disseminated throughout the country in a more timely, organized manner.

However, I also believe that it will never fulfill its potential unless USDA gets serious about cutting red tape and maximizing private-sector delivery.

Mr. Chairman, I realize that my testimony today has had an edge to it. But please know that independent agents have been a silent partner in this enterprise for too long. There comes a time when you have to tell it like it is.

We are the delivery mechanism for this product. We are the ones who sit around the kitchen table or by the tractor and talk to the American farmer about his crop insurance needs. And just like we know the American farmer, we know that this program cannot succeed as long as the federal government continues to deliver the product.

This is not about competition. Independent agents compete hard every day. This is about common sense. If the agent doesn't make the sale and the buy up coverage is not purchased, he or she is not the only loser. The farmer loses and the financial stability of the program loses.

Some in the bureaucracy hide behind "service to the farmer" as the justification for the vices of big government. I humbly suggest that no one knows better—not the government, not the companies—than the independent agent about the farmers' crop insurance needs and troubles.

For an independent agent, service is the primary commodity that we have to sell. If we do not do a good job servicing our clients, they change agents. If this happens on a large scale, we lose our company appointments. The point is we have a lot of stake in the success of this program. Give us a chance to make it work.

Agents have firsthand knowledge of some of the things that are needed and will work. We also know what things won't work. Agent involvement in the design of the products before they are marketed will eliminate many of the real-world "bugs" in the program. In other words, we ask that an institutional process be established and implemented to receive insurance agent input and help. An "Agents Advisory Panel" would be an asset to the FCIC. And, you will have a better product, possibly for less cost to the government and the taxpayer.

Mr. Chairman, we want to help improve the crop insurance program and we look forward to working with you in accomplishing this goal.

Thank you for the opportunity to testify. I look forward to answering any questions you may have.



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Testimony of

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on behalf of the

CROP INSURANCE RESEARCH BUREAU
Overland Park, Kansas

Before the House Agriculture Subcommittee on
Risk Management & Speciality Crops

Regarding the Federal Crop Insurance Reform Act of 1994
March 28, 1995

Mr. Chairman, Mr. Ranking Member and members of the Subcommittee, thank you for the opportunity to talk to you today about the status of Crop Insurance Reform. My name is Ron Miiller. I am vice president of Crop Growers Insurance, one of the largest MPCl writers in America, and a member of the CIRB Governmental Affairs Committee. These views are presented to you on behalf of the Crop Insurance Research Bureau (CIRB), a voluntary membership trade association of private crop insurers. Our association consists of insurance companies, reinsurance companies, and various groups interested in risk management for America's agricultural community. Many of our members are active in sales of Multiple Peril Crop Insurance in all areas of the country and are involved in selling the Catastrophic Risk policy. CIRB member companies provided over \$15 billion in private hail and MPCl coverage to America's farmers in 1994 and that number will increase dramatically when the final numbers for 1995 are tallied due to the massive reform of the crop insurance program.

Congress and the Administration should be commended for the innovative reform program signed into law by the President last fall. CIRB actively supported the legislation and was pleased to provide testimony in support of the proposal approximately a year ago before Representative Johnson's and Representative Durbin's subcommittees. We still believe that it will ultimately provide a significant measure of stability to this here-to-for unstable program. We recognize that there are and will continue to be challenges in delivering the program but we are also cognizant of the opportunities they present.

GOOD FAITH EFFORTS

The very late enactment of the reform bill placed unbelievable burdens upon both the public and the private sector entities charged with the responsibility of bringing the legislation to the agricultural community. The past several months are littered with exhaustive efforts on the part of the former FCIC and the new Consolidated Farm Service Agency (CFSA) along with private sector insurance operations to inform the public about reform and also to thoroughly and properly train CFSA employees and company personnel and agents. It has been a massive undertaking and much credit should be given to us all for the diligence and labor exerted to bring reform to the agricultural community.

Although confusion seems to reign supreme sometimes, there is good news out there too; however, often the good news is smothered by the bad. My testimony will attempt to paint a balanced picture of what we perceive to be the state of reform by providing examples of both.

LATE PASSAGE MAIN IMPLEMENTATION PROBLEM

Implementation of the Federal Crop Insurance Reform Act of 1994 has been a rapidly changing process. Constant revisions to the program have made it difficult for all entities (insurance companies and CFSA) to distribute accurate information to America's farmers in a timely manner. Confusion surrounding the rules was caused by the lack of written procedure, actuarial information, and inadequate time for training. What early information was disseminated to the public was often inadequate or incorrect. Frequent procedural revisions further exasperated the problem. CFSA personnel, unfamiliar with the basic tenets of crop insurance, struggle to provide consistent, correct information.

The private sector and CFSA desperately need to continue to develop a viable strategy to make the benefits of crop insurance understood throughout America; however, we need to be working together to do this. The educational outreach program put together with great effort by CFSA could have been more efficiently delivered by utilizing more private sector input. It takes a thorough knowledge and understanding of the potential customers for crop insurance and no one understands these customers better than the private sector who has been providing for their insurance needs for over a century.

GOOD NEWS - SOME EXAMPLES

The desired effect of increased participation is in evidence throughout America. Farmers are rushing to private insurance agents and CFSA to determine the best alternatives. Some have progressed more rapidly than others. For example, the counties in the Bootheel of Missouri are evidence of the positive effects of Reform. Traditionally, this area has seen participation in crop insurance at approximately 35% of available acreage. Today approximately 90% of the acreage is "on the books" for insurance purposes. Participation is spread evenly by CAT policies and buy-ups. Over 2,000 new applications have been accepted in this five county area. Additional staff has been secured to handle this influx of new business. Thousands of dollars are being returned to the agricultural communities through additional salaries and agent's commissions. We see reform working to this point in this area.

In the past, California has been a very low participation state. Many producers felt the MPC I program provided inadequate coverage for the premium. While this attitude still generally prevails, producers are flocking to their local insurance agent and CFSA to purchase the CAT policies. The occurrence of the recent excessive rainfall in northern California has led many growers to realize the basic value of the CAT policy. It is still too early to accurately predict the economic impact of CAT on this disaster torn area. Many applications remain unprocessed due to the mound of paperwork demanded by current regulations. Because of the lateness of implementation, many California growers were unable to consider the option of purchasing additional coverage; however, thousands of new growers have entered the program for the first time and will have the security of knowing that they have a minimum level of coverage for damaged crops instead of the uncertainty of ad hoc disaster payments. These growers can safely plan to restore their acreage to economic viability.

Congress expressed a great deal of concern over the delivery of this new product. I am proud to say that private insurance companies are stepping forward to meet this challenge. FCIC recently produced a list of 100 counties that may be under served for insurance purposes. After reviewing the number of private insurance agents available in these or adjoining counties, FCIC concluded that adequate service was available in virtually every corner of the country. New agents account for much of this expanded capability to deliver the product. While this has resulted in a challenge to properly train these inexperienced agents,

the results have been extremely positive for farmers. In the Northeastern states where prior participation has been almost nonexistent, a significant number of producers have chosen to purchase buy-up coverage because a trained insurance professional was available to explain the basic tenets of the crop insurance program. Again, this will bolster the economy of many small communities.

SOME MIXED RESULTS

Other areas of our nation have experienced mixed results. Preliminary results in the Corn Belt show a great deal of interest in buy-up policies. Early predictions would not have indicated this trend since prior participation levels were already quite good. The Southeastern states are experiencing a greater than expected conversion to CAT policies. Cotton producers who have expressed their dissatisfaction in past years with what they have called excessive premiums, are converting to CAT policies. This conversion is not generally true of the other major crops in the Southeast. Tobacco growers, particularly in North Carolina, have gravitated towards the CAT coverage. 1994 was a very good year in terms of tobacco production. Since a large number of producers will be forced to carry-over tobacco production which exceeds the quota allowance, many felt that CAT coverage would meet their risk management needs. The carryover production allows for some measure of self-insurance.

PROGRAM STILL TOO COMPLEX

Despite this early success in sales, the complexities of the program stymies participation and causes considerable agent resistance. Congress mandated that "the Corporation shall, to the maximum extent practicable, minimize the paperwork required and the complexity and costs of procedures governing applications for processing and servicing of the plan for all parties involved." Little if any progress has been made in this direction. In fact several backward steps have occurred. The benefits of many of these regulations are outweighed by the negative impacts they engender.

The requirement to sign the acreage report has added a tremendous burden on the agent (and CFSA), the farmer, and the company. Instead of simplifying and reducing administrative cost, additional requirements have been implemented. Requirements of this nature strain the cost-effective administration of this program

as each insurance company strives to meet the regulatory requirements of CFSA. No relief of the type and frequency of audits was put forth by the Corporation to relieve the delivery system of the demands placed by increased sales and mounting paperwork.

The lack of simplification tends to strike a blow to the program's credibility. Burdensome paperwork causes a distrust of the system and reinforces negative attitudes. Serious efforts to attack this problem must begin immediately. This Subcommittee is charged with the responsibility for finding ways to reduce the costs associated with delivering this program and CIRB pledges to be a responsible source of input as you seek ways to accomplish this mission.

To that end we would propose several options for consideration.

1. Dual Delivery System

Congress was acutely aware of the expense of a dual delivery system. The language in the Reform Act made catastrophic coverage available from the local CFSA office an option of the Secretary based on need. "Need" was to be based on efficient use of resources, the availability of personnel, and the availability of private insurance companies. In many large agricultural states over 15 different companies vie to be the crop insurance provider for the farmer. Yet, CFSA was allowed to enter the market as a direct competitor. Private insurance companies have more than demonstrated adequate private sector presence in such cases.

CFSA has requested additional funds from Congress to provide training for personnel to more effectively deliver catastrophic insurance. CFSA is currently struggling to find personnel to adjust CAT policies written in the aftermath of the California disaster. CFSA must rely on staff that is largely untrained and inexperienced. Since the resources available to CFSA are extremely limited, CFSA must remain dependent on the costly process of importing this adjusting staff. CIRB would propose that the private insurance sector has demonstrated its ability to deliver the program efficiently. As each member of Congress strives to find responsible budgetary cost savings, would it not make sense to deliver insurance protection through private insurance companies who are willing to assume a portion of the risk associated with the crop

insurance program instead of placing the entire burden on the budgetary process. It is time for CFSA to move to a role of regulator and away from program development, program delivery, and program regulation.

2. Paperwork Reduction

The mandate to reduce paperwork carried the implication that farmers who only wanted CAT coverage would have a minimum of requirements for participation. Producers who needed more extensive risk management had a number of alternatives available to them to expand the coverage. While Congress allocated cost savings for these producers through additional subsidy, the grower bore more expense in terms of premium than the buyer of a CAT policy who only paid a \$50 administrative fee. We ask Congress to urge CFSA to allow the private insurance sector a strong voice in planning an effective procedure for reducing the paperwork associated with the CAT policy.

Coverage for all growers is predicated on the calculation of an actual production history (APH). The process of establishing an APH must be streamlined on CAT policies. Disaster payments have historically been calculated based on proven ASCS yields. Extensive data exists to substantiate these yields. Utilization of ASCS proven yields will greatly streamline the current process. Growers will still have the opportunity to prove higher yields through the buy-up process. This procedure provides an equitable solution to simplify the maze of paperwork.

3. Program Regulation

Congress has demanded that private insurance carriers accept an increasingly more significant portion of the risk associated with the crop insurance program. We have always been willing to accept the challenge of increased risk as long as the government allowed for a fair rate of return. While significant movement has been made in this endeavor, little relief exists from the extensive regulation promulgated by CFSA. It is time that performance standards are implemented to judge each participant on individual merits. Insurance companies with significant risk will employ internal standards to assure the integrity of the

program. The standards developed to assure this integrity can be tailored to provide a cost-effective approach to program oversight. This approach will reward those companies who are able to capitalize on efficiency and accuracy. This will result in a practical, viable presentation of the crop insurance program to America's farmers and ease the burden of reduced reimbursements, a move that once again benefits each and every taxpayer.

ON THE RIGHT TRACK

We come before you today to tell you that the reform effort is moving forward. Implementation has been rough but good people with good intentions are seeking ways to smooth it out. While the delays in releasing the information have caused a burden on everyone to make the public fully aware of the benefits in the crop insurance program, the financial risk management options available to each farmer will present a sense of security. We want to assure you that as private insurance companies we intend to make this program work and we stand ready to work with you to that end. What you did last year was right. It was right for the private sector insurance industry, it was right for farmers and it was the right for the American taxpayer.

We appreciate the opportunity to visit with you today and I will be happy to entertain any questions you may have.



AMERICAN ASSOCIATION of CROP INSURERS

"AACI devotes 100% of its resources to improving the MPC1 program"

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Testimony of

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Before the House Agriculture Subcommittee on
Risk Management and Specialty Crops

Regarding Implementation of the Federal Crop Insurance Reform Act of 1994

March 28, 1995

Mr. Chairman, Mr. Rose, and members of the Subcommittee, thank you for the opportunity to present our views on the implementation of the Federal Crop Insurance Reform Act of 1994. These views are expressed on behalf of the American Association of Crop Insurers (AACI), a voluntary membership trade association of the private crop insurance industry. Our association consists of insurance companies, private reinsurers, local crop insurance agents and adjusters. AACI members and their parent companies write over 75 percent of MPC1 policies sold in the U.S.

I am pleased to report to the Subcommittee that all AACI member companies are fully participating in all aspects of the reformed crop insurance program. We are working cooperatively with USDA to insure that every eligible farmer has an opportunity to satisfy their risk management needs through crop insurance. For the first time ever, many thousands of farmers know before they plant what type of income security they have if disaster strikes.

AACI member companies appreciate the opportunity they are provided through the public-private partnership of the crop insurance program to assist the government in providing farmers with the program's income safety net. As the President and CEO of a family-owned company that has been in the crop insurance business for over 75 years, I firmly believe that the private sector has a lot to offer to the program in terms of experience, innovation, and dedication. We thank the Congress and the Administration for continuing this partnership in the Reform Act.

Snapshot of Implementation

We cannot stress enough that Congress did the right thing last year in the passage of the Reform Act. We applaud Congress and the Administration for their vision in putting together this plan and for their courage in taking the necessary steps to get it adopted. The Reform Act set in place a safety net of farm income protection that had not previously existed. Crop insurance protection is the foundation, or linch pin, for other farm programs.

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The professional risk management counseling provided by private insurance agents has been working in the countryside. There are many stories of farmers who came in to see their agent who were intent on just buying catastrophic protection. However, after working with an agent to evaluate their risk management needs and the various insurance options and costs, many ended up buying additional coverage. While time was our enemy this year, this collaborative counseling process between farmer and professional agent is the model that we need to build on.

We have strong concerns about some misinformation and a disregard for growers' risk exposure that has surfaced from government offices in some areas of the country. The advice that catastrophic protection (CAT) is all a farmer needs is correct only in terms of meeting linkage requirements. However, that advice is dangerous if a farmer is given the impression that CAT is all a farmer needs to have adequate coverage in case of disaster or that it will return the same number of dollars in most situations as the old disaster program. This is not true in the majority of cases and we need to dispel that type of advice. It has also resulted in many private agents having to spend a major portion of their time trying to correct the information that had been incorrectly provided by the government.

Along these same lines, we fear that there has been a broad use of transitional yields in government-delivered catastrophic protection as opposed to encouraging farmers to certify actual yields. The use of transitional yields under the Actual Production History (APH) formula cuts the low 50/60 coverage by another 35 percent. We hope farmers are not shocked with how little coverage they have if disaster strikes. In other cases, very small farmers may have been encouraged and advised only about CAT coverage when in actuality, they could have purchased more meaningful coverage for approximately the same amount of money as they paid in administrative fees for the CAT.

The Reform Act set up a good program structure. It gives the grower the right to make choices. However, we are deeply concerned that a lot of the advice and information provided in some areas of the country by government offices to farmers did not provide them complete information on all of their choices. We hope that the program does not get a black eye in 1995 because farmers think they have been given the whole story and made a choice which they were told would provide them with adequate protection.

Given all of this, what our goal must be for 1996 is to make sure that before any grower renews their CAT policy, that they are strongly encouraged to meet with a professional agent and get more complete information on their insurance options and receive the benefits of the professional risk management counseling of private agents. The Department has a responsibility to insure that information emanating from all government sources must be consistent and accurate and that it not be altered on a county by county basis.

A Pilot Program in Government Simplification

We come before you today with a modest proposal. We ask that the Federal crop insurance program be made a pilot program for the reinventing and simplification of government. We in the crop insurance industry live in an increasingly incongruous and frustrating world. There seems to be no connection between the political rhetoric that we hear from both political parties and the reality of what we see happening in the government program that we are involved in -- the Federal crop insurance program.

We were greatly intrigued last year with Vice President Gore's efforts on reinventing government. We noted many of the ideas included in the Vice President's National Performance Review (NPR) with interest. We were increasingly excited with the regulatory relief component of the Republican Contract with America. We are impressed by the fact that these things are not only being talked about, but they are actually being enacted by Congress. It is a source of great hope to us and other small businessmen that Congress is beginning to tackle in a meaningful way the regulatory excesses that have built up in government law and regulation.

However, when we deal with the Federal Crop Insurance Corporation (FCIC), it is as if we are living in another world. In this world, no one seems to be concerned about eliminating federal regulation and red tape, and no one seems to be aware of any mandates from the Administration or from Congress to reduce regulation. While language was included mandating simplification of the program, we have seen increased complexity. While another separate provision of the Act mandates that steps be taken to reduce the paperwork and regulatory burden, the trend is in the other direction. We need your help to send the message and keep the pressure on that it is no longer business as usual. That reform means reform. That simplification means simplification.

I'm sure that many of you have read Phillip K. Howard's cogent little book, *The Death of Common Sense -- How Law is Suffocating America*. If any of you do not have a copy, AACI will be happy to make one available to you. The book describes in irrefutable terms how ever-increasing law and regulation is suffocating America and adding huge additional costs to all governmental functions, as well as many private functions. This is exactly what is happening in the Federal crop insurance program. In response to any new issue or problem, we simply get a new regulation layered on top of already existing regulations. Therefore, we end up with a pile of regulations, procedures, and documents that as you can see [display] is very high.

We would like to see the Consolidated Farm Service Agency (CFSA)/FCIC in cooperation with the Congress and its private sector partner, do what the Governor of Florida, Lawton Chiles, is doing. After reading *The Death of Common Sense*, and having experienced excessive regulation with regard to a personal project in which he was interested, the Governor has mounted an aggressive campaign to cut regulation in the State of Florida by 50 percent. Attached is a press account of this initiative that was reported in the *Washington Post*. We ask that CFSA/FCIC, using the authority that is in the law, undertake the same kind of initiative with the Federal crop insurance program. Such an initiative would be quite appropriate, because no new law is necessary -- it is already mandated by the law that you passed last year.

We have attached to our testimony some basic suggestions for partially achieving such an initiative. We ask that this Subcommittee, in its oversight capacity, urge the CFSA/FCIC to undertake such a program and that you use your oversight capacity to ensure that the simplification mandate contained in the statute is obeyed.

A Statutorily Mandated Common Sense, Simplified Mindset

We testified before the House Agriculture Committee last year that no matter what legislation was passed by Congress, a reformed crop insurance program could only reach its objectives if there was a completely new mindset on all facets of the program by all parties involved. USDA (CFSA/FCIC), companies, agents, farmers and Congress would have to focus on a greatly simplified program for all levels of coverage.

Congress agreed and it directed a new mindset. The House Agriculture Committee in the 103rd Congress recognized that common sense had to permeate the administration of at least one government program, crop insurance. It recognized that without the application of common sense principles to crop insurance reform the program would be severely burdened by the sheer volume of participation expected and mandated. Therefore, Members on your predecessor Subcommittee under Tim Johnson and Larry Combest's leadership, with several Members, including yourself Mr. Chairman, sitting around the dais today, wrote section 106 of the Reform Act containing the following new Section 508(b)(10) of the Federal Crop Insurance Act:

(10) Simplification.—

(A) Catastrophic risk protection plans.—In developing and carrying out the policies and procedures for a catastrophic risk protection plan under this title, the Corporation shall, to the maximum extent practicable, minimize the paperwork required and the complexity and costs of procedures governing applications for, processing, and servicing of the plan for all parties involved.

(B) Other plans.—To the extent that the policies and procedures developed under subparagraph (A) may be applied to other plans of insurance offered under this title without jeopardizing the actuarial soundness or integrity of the crop insurance program, the Corporation shall apply the policies and procedures to the other plans of insurance within a reasonable period of time (as determined by the Corporation) after the effective date of this paragraph. 7 U.S.C. 1508(b)(10).

Unfortunately, this mandate was completely ignored when it came time to draft the regulations and implement the new program. In fact, implementation regulations and procedures are nearly in the opposite direction -- more complexity, more regulation, more administrative cost. For example, instead of looking at a possible way of eliminating or streamlining the filing of an acreage report, the regulations instead now not only require them, but further require that they be signed by the insured. In addition, a requirement that actuarial forms accompany a crop insurance policy have required the individual printing and compilation of policies by county for all insureds. The required investment in time, printing equipment and supplies, paper and postage has been tremendous.

In partial defense of CFSA/FCIC, they were not provided with a great deal of time due to the late passage of the bill. However, the final plan did not differ greatly from what was proposed in March of last year, and the idea of free coverage, as many of you know, was not new. Whenever that idea had previously been discussed by the Agriculture Committee, it was understood that the process would have to be simple and streamlined if it was too be manageable. Furthermore, FCIC and industry had been meeting informally, discussing ways to improve and simplify the program, since May of 1994.

The bottom line is that farmers deserve a more user friendly program. Furthermore, from a fiscal perspective, this program can only be delivered for the limited amount of money the government has to appropriate -- be it mandatory or discretionary - - if a systematic, wholesale, top-to-bottom program is adopted to streamline the procedures, reduce the regulatory burden, and drive down administrative and operating costs of the crop insurance program.

Reduce Government Delivery Costs

With the expense reimbursement reductions that are already mandated in the Reform Act in the 1997, 1998, and 1999 Standard Reinsurance Agreements, industry will continue to be pressured to do the same, or even an expanded, job for less. We committed to doing so. We committed to paying our share toward budget responsibility by supporting passage of the final reform bill that contained those reductions.

However, the Department must contribute as well. It is a well known fact that the Consolidated Farm Service Agency (CFSA) is unofficially seeking additional funds to help cover the costs of delivering catastrophic policies this fiscal year. Internally, CFSA received a transfer of \$26 million and they sought as much as another \$32 million from Appropriators. The House already has acted to give them \$10 million in supplemental funds. In recent testimony before the House and Senate Agriculture Appropriations Subcommittees, CFSA is seeking \$20.1 million in additional salary and expense funds for next year, stating it

"is needed to . . . cover such items as CFSA county office delivery expenses not covered by the catastrophic risk insurance fee; such as those associated with the Non-insured Crops Assistance Program (NAP); support services provided to reinsured companies in the selling and servicing of catastrophic and buy-up policies; enhancement of automated systems in support of reform; and training and other costs."

Just as the Committee spoke clearly on simplifying the program in the Reform Act, it also spoke clearly about the need to minimize duplicate delivery costs. Therefore, you included language that did not require the Secretary to make catastrophic coverage available from USDA county offices. Instead, it allowed the Secretary to do so as an option based on need. That "need" is to take into account the efficient use of resources, the availability of personnel, and the availability of private insurance providers.

It is quite clear from the plea for funds this year and the need for more next year, that having every county office deliver catastrophic coverage is not an "efficient use of resources" and that the Department does not have available personnel to handle the task. Administrative actions such as those contained in attached Bulletin No. MGR-95-009 clearly show that CFSA cannot handle the workload in a timely manner. There has been no showing of a lack of availability of private insurance providers. In fact, more providers are becoming involved in the program.

While the initial year of implementation is unique, it is hoped that this Subcommittee will encourage the Department to eliminate the duplicative delivery of catastrophic protection by county CFSA offices in those areas of the country where there is an adequate private sector presence. There are few, if any, areas of the country where there is not an adequate private sector presence if there are crop insurance policies to be sold. Government delivery where private sector agents are available is completely antithetical to the stated objectives of downsizing government, streamlining operations, closing county offices and reducing competition with the private sector.

We must also note that as USDA continues to downsize, the farmer's point of contact with the government gets farther and farther away. While government costs may be reduced by consolidation, it may raise a farmer's costs due to the increased distance to travel. However,

there is most often someone right in the local community or who will travel to the farmer's door who can meet that farmer's risk management needs -- an independent, professional insurance agent.

We urge the Subcommittee to ask the Department exactly how much it has already cost and how much it will continue to cost for every single CFSA office in the country to be trained, equipped, and staffed to deliver catastrophic protection. The natural follow-up question is then how much could be saved if the CFSA ceased to deliver such protection. Furthermore, if there are any legal impediments to the government simply transferring the catastrophic policies it has provided this year to the private sector next year, we hope that the Subcommittee will identify and eliminate them.

A Reinvented Government Management Philosophy

Not only do the program requirements, procedures, and paperwork need to be streamlined, but the way the program is managed needs to be reinvented as well. Vice President Gore's Report of the National Performance Review (NPR), entitled "Creating a Government that Works Better and Costs Less" contains a number of ideas that could liberate the crop insurance program and help it more effectively and efficiently achieve its goals.

One aspect of that Report that was implemented through Executive Order 12862 on September 11, 1993, was the requirement for all agencies to set Customer Service Standards. Following a customer survey (report to the President due March 8, 1994), the agency was to have a customer service plan adopted including customer service standards, by September 8, 1994. Unfortunately, FCIC never did a survey nor developed a plan. This should be done. The Committee mandated this to be done in one area by its inclusion of the new Section 506(q) in the Reform Act on program compliance. It statutorily set a three-year deadline for notification of compliance errors. Such service standards should not have to be the subject of legislation.

The NPR also encouraged Inspector General offices to reorient the way they approached their duties and to broaden their focus from strict compliance auditing to evaluating management control systems. While this recommended action was geared at how agencies look at themselves, the same principles apply to how an agency relates to those in the private sector with whom they do business. A large part of the regulatory burden of the crop insurance program is that the philosophy is management by regulation as opposed to management by objective. Instead of setting a guideline or standard of a 5 percent claims error ratio and either rewarding a company that meets that guideline or penalizing one that doesn't, FCIC has traditionally mandated that each company, regardless of size and number of policies, adopt a particular audit routine. Whether that audit routine achieves any particular results is never at issue. The only question is whether the company followed the procedure or not. Such micromanagement, without clear objectives, stifles innovative management actions by a company that may actually result in improved performance.

The examples in the crop insurance program are endless. Companies must submit their entire set of training materials to FCIC for approval anytime they change. Instead, FCIC could simply set the guidelines for training and measure the performance of those agents. Instead of simply setting guidelines for what information must be collected on various forms, FCIC must pre-approve every form used by a company in the delivery of crop insurance. This type of process is burdensome, costly, and it stifles innovation. It must change. Hopefully between this

Subcommittee's oversight of the Crop Insurance Reform Act's provisions, the Paperwork Reduction Act, the Regulatory Reform Act, and continuing Executive Orders, it will change.

Specific Implementation Issues

The monumental task of implementing the Reform Act has begun, although it has begun slowly. As can be expected, there have been problems, but all sides are working on them cooperatively.

Sales Closing Dates. As we sit here today, the largest role of the private sector in the reform program is over. March 15 marked the last date anywhere in the country that anyone can apply for a level of insurance coverage higher than the catastrophic level. AACI led a broad coalition of groups in seeking additional time to allow farmers to evaluate their risk management needs and secure higher levels of coverage. Several of you supported this effort and we thank you. However, those requests fell on listening, but unwilling ears.

For the record, if a widespread disaster hits in 1995 and an insufficient number of farmers are adequately covered by crop insurance, it will not be due to the lack of effort on the part of the private sector.

Lateness of Information. Private companies have been and will continue to do all that they can within the time allowed to make this program work. As you can imagine, it is very difficult to deliver a program when you don't know the rules and when the rules that you do know keep changing. The unfortunate fact is that due to the lateness of much of the information needed to do the proper job -- for instance, actuarial documents on several county crop programs with sales closing dates of March 15 were received as late as the first week of March -- we have not been given any time, let alone adequate time, to do the job the way it needed to be done. The regulations on the new catastrophic program did not come out until January 6, yet the January 15 sales closing date for certain crops remained in place.

Due to the lateness of the information to both companies and farmers, and the refusal to move sales closing dates, we hope that the Subcommittee and the Congress as a whole will not wholly judge the reform program based on its performance this first year. AACI firmly believes that the concept embodied in the Reform Act is sound and is the best public policy choice -- on fiscal, farm economic, and political grounds -- for the American farmer and taxpayer. With administrative improvements and greater use of the private sector, the program will meet and exceed its objectives.

Responsibility of The New Team Member. Not only is the Department of Agriculture trying to implement the most comprehensive change in farm policy in recent memory, but it is also trying to do so while it wades through the unknown territory known as reorganization. After having just finished weaning itself from the delivery side of the crop insurance program after 14 years, the Secretary opted to thrust the government back into this function in perhaps a greater role than ever before.

With the government's increased role in delivery comes a responsibility. That responsibility is heightened due to the fact that what the county CFSA office says in their newsletter or in a county meeting or in the annual notice of farm program sign-up is the "gospel truth" when it comes to farm programs to most farmers across the country.

No matter what the private agent says, no matter how many advertisements a company runs in different magazines, no matter how many farmer meetings companies and agents hold.

all it takes is one government newsletter or one county agent at a farmer meeting saying something contrary to existing program procedure or telling farmers they don't need additional coverage and all that private effort is for naught. All of a sudden you have the farmer thinking the agent doesn't know what they are talking about and the existing delivery network of over 20,000 private agents is undermined. We have been working closely with CFSA to ensure that a consistent, fully informed message emanates from all corners of the CFSA network, but that is a very difficult task.

Alternative Crop Plantings and Coverage. AACI members have considerable concern regarding the procedure outlined for the addition of crops after the sales closing date outlined in paragraph 400.653(b) of the interim rule implementing the Reform Act. The proposed procedure is troublesome in that it could provide insureds with a false sense of security in that it relies on FCIC to make a discretionary determination that crops could be added to the policy following sales closing. It also limits the farmer to a catastrophic level of insurance even if they had previously determined that a higher level was necessary to meet their risk management needs.

Furthermore, the proposed procedure is a de facto extension of the sales closing date. According to USDA's own attestations, such an extension is not permitted by the statute. Finally, it requires the insured to make a new application prior to the acreage reporting date, a process that makes the insured make a special trip to the agent or CFSA office.

As it reads, paragraph (b) provides in part that:

"Notwithstanding the requirement contained in § 400.653(a) [make application on or before sales closing], if the insured is not able to plant a crop for which coverage has been obtained, FCIC may, at its discretion, determine that conditions exist that would permit the person to insure alternative crops to those specified on the application. If FCIC determines that such conditions exist, the insured may insure the alternative crops by making application for catastrophic risk protection coverage on the alternative crops after the sales closing date but before the acreage reporting date for alternative crops and paying the appropriate administrative fee. Limited or additional coverage is not available after the sales closing date." (Emphasis added.)

As opposed to the above procedure, AACI has proposed the following:

- A. Insureds must sign up for all insurable crops that they may potentially plant for whatever reason by the applicable sales closing date for the crop in the county. They would indicate a level of coverage for each crop.
- B. Insureds would pay \$50 per crop (if CAT or limited levels are chosen) and complete the required APH histories only on those crops that the insured intends to plant at the time of application.
- C. If the insured plants an alternative crop from that originally intended, the insured would file an acreage report at the applicable acreage reporting time for that crop and at that time pay any applicable administrative fee and complete the APH forms on the alternative crops.
- D. The insured's level of coverage on the alternative crop would be that level indicated on the timely filed application as long as all other policy provisions (timely planting, etc.) were followed.

An alternative to the above would be for the insured to pay the fees up front for all potential crops, but then to refund those fees following acreage reporting if a crop is not planted

("0" acreage report) yet a fee was paid for that particular crop. The APH work would still be done at acreage reporting for any alternative crop.

The AACI proposed procedure would provide insureds with much greater security in knowing that whatever insurable crop they plant for whatever reason, be it market changes or adverse weather, they will be covered and covered at the same level that they decided was necessary to meet their risk management needs.

To everyone's credit, industry and government representatives are working together to iron out program flaws or implementation trouble spots. Both sides are committed to making this program work. It will work.

Related Issues

National Appeals Division. AACI submitted testimony to the Department Operations and Nutrition Subcommittee and Senate Agriculture Committee last Congress in support of the establishment of an independent appeals division within the Department and that disputes between reinsured companies and FCIC would be heard by such a body. AACI supported legislation and amendments to this effect by Rep. Tim Johnson and Sen. Kent Conrad. Specific report language was included in the Senate report accompanying the reorganization legislation clearly stating that reinsured companies would have access to the new National Appeals Division (NAD). The House bill was silent on the issue, thereby not negating the companies' access to the NAD. The final bill was neutral on the issue, and as you know, there was no conference report to explain intentions behind the final provisions.

It has come to our attention that the Department has decided not to provide reinsured companies access to the NAD. Rather, reinsured companies would have to file appeals within the same agency that made the initial adverse decision, the exact circumstances the NAD was designed to address. We urge the Subcommittee to weigh in on this matter and provide reinsured companies with the due process rights they deserve as full partners in the crop insurance program.

Conclusion

AACI Member Companies consider themselves full partners in the Federal crop insurance program. This includes a responsibility to the taxpayer that funds are spent wisely and a responsibility to the farmers that they receive the appropriate risk management counseling, services, and products that they need. The suggestions in our testimony are aimed at those objectives.

Borrowing a line from Secretary of Agriculture-Designate Glickman's statement before the Senate Agriculture Committee relating to research programs -- "I want to know where duplication can be eliminated and where we achieve the biggest bang for the taxpayers' -- and farmers' -- buck." We firmly believe that the private sector can deliver, day after day, more bang for the scarce Federal dollar available, thereby permitting the intended beneficiaries -- farmers -- to receive the bulk of those scarce dollars. We look forward to fulfilling this partnership role and believe that CFSA and FCIC, with a simplified mindset, can fulfill their role as well. We thank you for the opportunity to appear before you today and look forward to working with you to insure the continued viability of the crop insurance program.

SUMMARY OF REGULATORY RELIEF/PAPERWORK REDUCTION IDEAS

1. Timely and Predictable Release of Program Information

Crop program information and the corresponding actuarial materials are often not released in time for companies to perform strategic planning for such items as internal training, agency training, and proper marketing of the crop insurance program. For the 1996 program, the program information and actuarial materials need to be in the hands of the companies by June 1st for fall-seeded crops and September 1st for spring-seeded crops.

2. Tolerances for Acreage Modifications

After the acreage reporting date, any change in acreage, regardless of size, results in modification to the policy and reissuance of some policy paperwork like the declaration page. If the revision is upwards, an inspection will also have to occur. Tolerances should be established such that acreage can change within tolerance, without requiring inspections and reissuance of policy paperwork. This would be consistent with the tolerance permitted in a farmer's estimate of farm-stored grain under loan.

3. Finding An Alternative to Filing an Acreage Report

Industry believes that there may be ways to collect sufficient information at various points in the insurance cycle or utilize past information in an effort to reduce the burden on the insured to file an acreage report. Such a streamlined procedure would also reduce the number of times the agent and company have to process and transmit related data.

4. Compliance with Sodbuster/Swampbuster

Different approaches are used by different county CFSA offices in verifying compliance with Sodbuster/Swampbuster. All CFSA offices should have the capability to print, based upon written request, copies of a producer's CFSA Form 424 and all offices should use the same system of verification. In addition, the insured must also sign a disclaimer at the time of processing a claim that they remain in compliance with Sodbuster/Swampbuster. CFSA should develop an interactive database on eligibility (all factors) to streamline this whole process.

5. Increased Reliance on Farmer Self-certification.

Within approved parameters, farmers should be able to certify yields, acreage and losses, reducing the need for the shuffling of papers and visits to the farm. Under this system, of course, the farmer must be the one held responsible for any errors in such certifications.

6. Minimum Premium

Institute a minimum premium as is done for Crop Hail policies. Companies must process policies with premiums as low as \$1.00. It takes virtually the same time and effort (hence costs) to process small premium policies as it does large ones.

7. Data Reporting Requirements

Companies must electronically transmit 12 different records types, 250 bytes each, with a total of 485 data fields. Duplicate information is being processed by the FCIC and the insurance companies. We need to eliminate insignificant data, consolidate multiple records into one record group and/or group redundant data and send only once.

8. Educational Requirements

Companies must furnish agendas, copies of tests, handouts and various other materials to compliance auditors annually to support our training programs. In addition, we also must provide at least 24 hours of classroom training to each adjuster. Each company should be able to provide compliance auditors with the above data for approval of our training programs one time and not on an annual basis unless they have changed. Also, the company should be able to determine the number of hours of training each individual needs, based upon observation and not some arbitrary requirement.

9. High Risk Land Rating Procedures

This is currently a manual rating procedure as CFSA/FCIC does not have an automated edit in place. In its present state, someone must physically review a map to determine if a policyholder is insuring high risk land. This is very time consuming and inefficient, as the maps are not easy to read, which can result in improper classification. The CFSA/FCIC itself does not currently have an automated edit in place for high risk land. This means the only time potential high risk land locations are reviewed is in the event of a compliance audit. Obviously, the opportunity for high risk land to be improperly rated and never corrected is great.

CFSA/FCIC should develop a database of high risk land locations that the insurance companies can load into their systems. This would provide an efficient automated method in which to identify high risk land locations and then rate accordingly.

10. Coordinating the Release of any Further Common Policies.

There are currently several versions of Federal crop insurance policies in existence that cover different crops. A "common policy" has been developed that will eventually replace the different forms currently held by farmers. Thus far, the new common policy has been distributed on a number of crops, but not all crops. It is our understanding that FCIC plans to release more common policies on more crops in 1996, but that there still would remain some crops under old policy forms. Industry believes it would be most prudent to distribute all remaining common policies at one time, thereby avoiding duplicative mailings to producers and reducing the confusion that may result from doing it at different points in time.

11. Obtaining CFSA Established Yields

On many units, CFSA farm program yields are required to either establish or complete the APH database (the farm program yields are necessary to compute transitional yields if less than four years' worth of records are supplied). It is the insured's responsibility to provide this information by the production reporting date. There should be a minimum county established yield that could be used when the insured does not provide one. This yield would need to be low enough in order to provide an incentive for the insured to obtain the CFSA established yield. Other options to facilitate this process would be to allow the companies to obtain the CFSA

established yield via a documented phone call to the CFSA office without hard copy documentation, or to allow companies to tap into this information electronically.

This recommendation could be taken one step further and eliminate transitional yields altogether (not just when an insured does not provide farm program yields). The "T" factors that are then applied against farm program yields to get a transitional yield which is then further multiplied by a percentage factor depending on how many years of actual records are supplied could all be replaced by a single county default yield, possibly based on 10-year NASS data.

12. Written Agreements

Insurance on certain crops, or in certain areas, or for particular producers can only be offered by written agreements. Currently these written agreements are all processed by the Regional Services Offices of the Risk Management Division of CFSA. A farmer must sign an application for a written agreement (FCI-5 form), and then the RSO will issue an offer of insurance (FCI-2 form) that will contain the applicable rates and coverage guarantees. The producer must then sign the FCI-2 if they want to accept the agreement and be insured.

Recommendations: The companies should be given the necessary authority and training, under established guidelines, to administer the situations that require written agreements. The signature requirement on the application (FCI-5) should be eliminated since the insured has to sign the final offer anyway. Signatures on both forms is duplicative and it requires an extra trip for the insured or the agent. The agent or company should be able to submit the application to the RSO for the agreement on behalf of the insured.

13. Consolidated loss adjustment forms/process.

We would request that CFSA and insurance companies develop one complete source document that would be used for loss adjustment purposes. The form would include line item legal descriptions, acreage, share, practice, intended use, compliance with sodbuster/swampbuster, established yield and any other pertinent data. The next step in the process would be automation that would allow companies by computer modems to access this information. Companies could then dial up and request this for insureds with losses and print the data in their own offices.

14. CFSA Paperwork regarding losses

The current forms, systems, and practice between crop insurance and CFSA as it relates to losses and several program items are totally inefficient and wasteful. Greater coordination and discipline needs to occur. There needs to be one set of rules that everyone must follow.

15. Type and Practice Code Simplification.

For each type and practice combination, there is a different rate table. A thorough examination of past data needs to be done to determine whether different rates are necessary for all current type and practice combinations. Consolidation of types and practices would reduce the size of actuarials.

16. Presentation of Actuarials.

Utilization of formula driven rates may greatly simplify the rate quoting and actuarial process. This must be approached carefully to insure that 50 pages of actuarial documents are not simply being replaced with one sheet of paper which then requires 50 different calculations prior to being able to quote a premium, but some progress could be achieved. A reduction in the number of statements and alternatives included in county actuarial tables would also greatly reduce the size of actuarial documents.

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To: United States House of Representatives
Agriculture Committee, Sub-committee on Risk Management
Crop Insurance Oversight Committee

From: Dade County Potato Producers
Dwayne Williams, Williams Farms of Homestead
William E. Crispin, Esq., Lubitz, Crispin,
Reynolds & Zipper and Board of Directors of
Dade County Farm Bureau

Re: Federal Crop Insurance Corporation - Crop
Insurance Reform, Catastrophic Crop Insurance Program:
Multiple Peril Crop Insurance

Date: March 27, 1995

The majority of potato producers in Dade County, Florida have purchased the multi-peril crop insurance, thereby electing to have a policy that includes and adds to the coverage provided by the catastrophic level of insurance. The Agricultural Communicators Fact Kit states on page 5, "With today's narrow profit margins in farming, many producers want and can benefit from higher levels of coverage than is provided at the catastrophic level." Accepting this representation of coverage the potato producers purchased this additional insurance coverage. The potato producers accepted the representations made of this additional coverage and invested in the multiple peril crop insurance program as a legitimate risk management tool for income protection.

It is understood that the basic catastrophic crop insurance coverage (CATS) represents catastrophic coverage comparable to disaster relief programs of recent years. With the relatively low cost to the producer for the basic CATS coverage, coverage would be consistent with the cost.

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However, the coverage represented to be available under the multiple peril crop insurance reflects not only catastrophic coverage, which is included in this type of policy, but also enhanced income protection. As the Agricultural Communicators Fact Kit states "...the combination of substantially higher yield guarantees and price elections means that producers can obtain significantly more protection in dollars and cents terms, than is provided by the basic catastrophic crop insurance policy."

The reformed insurance coverage was recently put to a true test in South Florida during November 1994, with the occurrence of Tropical Storm Gordon,. The storm destroyed at least 25% of the planted potato crop, resulting in a 100% loss of those affected acres.

In light of the recent experience of the Dade County Potato Producers, this Committee is asked to critically review the following specific areas related to the Multiple Peril Crop Insurance Protection under the new Federal Crop Insurance Reform Act 1994:

1. The potato producers have been advised that the multiple peril insurance coverage is for loss of production and not for income protection, so clarification is necessary.
2. The areas and degree of risk to be managed through the multiple peril crop coverage should be greater and more comprehensive than the areas of risk to be covered under CATS, consistent with the significant difference in premium cost between the two coverages.

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consistent with the significant difference in premium cost between the two coverages.

3. With the Federal Crop Insurance Corporation's strong emphasis and reliance on replanting a crop after suffering a loss, there should be an adequate replant provision in the potato policy. Potatoes have no replant provision in the policy.
4. With such an emphasis on replanting a crop within a certain planting period and that being a basis for denial of coverage, there should be special emphasis placed on prompt communications between the producers, adjusters and the underwriter.

CONCLUSION

The significant premium expense of Multiple Peril Crop Insurance Coverage should be reflected in the extent of coverage. This can be achieved by changes in the policy language interpretation and application to the areas of risk being managed.

/s/ DWAYNE WILLIAMS

Dwayne Williams



William K. Crispin

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March 28, 1995

The Honorable Thomas Ewing
House Agriculture Committee
Subcommittee on Risk Management and Specialty Crops
1301 Longworth Building
Washington, D. C. 20515

Dear Mr. Chairman and Members of the Subcommittee,

I am Steven G. Tate, a partner of Tate Farms (a family owned joint venture partnership) and owner of Steve Tate Insurance (crop insurance agency), both located in Meridianville, Alabama. I appreciate the opportunity to submit my comments regarding the status of the Crop Insurance Reform measure as it has affected the farmers of Alabama. I address this issue from the prospective of both a crop insurance agent, but more importantly from the producer standpoint.

Our family farm partnership consist of approximately 4,000 acres of cotton in the Tennessee Valley Region of North Alabama. I have been involved in production agriculture on the family farm since my graduation from Auburn University in 1980. Since that time I have served in numerous capacities with the American Soybean Association, the Alabama Soybean Association, and the Alabama Farmers Federation. I am a member of the Farm Foundation's Bennett Agricultural Round Table, on the Board of Directors of the Auburn University Ag Alumni, a graduate of the Alabama Agriculture and Forestry Leadership Program, named Outstanding Young Farmer by the Alabama Jaycees, and been named as Alabama's Outstanding Young Farm Family by the Alabama Farmers Federation. I am currently participating in the National Cotton Council's Cotton Leadership Class.

I entered the crop insurance business as an agent in 1992, by opening my private agency in Meridianville, Alabama. I had served as a crop insurance adjuster in the North Alabama area for eight years prior to receiving my agent's license. My agency writes through the Southern Division of Rain and Hail Insurance Service Inc. in Lawrenceville, Georgia. I currently serve as a board member of the Rain and Hail Insurance Society, a national organization which seeks to strengthen and enhance the development, administration, and service of the crop insurance program nationwide.

Agriculture has provided many opportunities for me in recent years, and I always strive to be a participant in process, as we strive to make sure that agriculture remains a viable industry in America.

Although the partnership (Tate Farms), was legally formed in 1987, my family has been producing crops in Madison County since 1868. Crop Insurance has been an integral part of our risk management program since 1967. I, as well as my predecessors, believe that a sound crop insurance program is a necessity in modern agriculture.

Through the years the Tennessee Valley Region and more specifically Madison County, has been a model of how multiperil crop insurance should be utilized. All segments of the industry, (agents, adjusters, and farmers) have conducted themselves in a professional manner, maintaining favorable loss ratios for the insurance company, while providing adequate risk protection and timely accurate payment of losses for the farmer.

The crop that has had the highest percentage of participation in the Tennessee Valley is cotton, which is a direct reflection of the high investment that is required to produce a cotton crop. The acceptable industry standard for loss ratios is 1.07. The cotton loss ratio for Madison County has only exceeded this level in 2 years of the last 14. This favorable experience has been obtained with approximately 65% of eligible acres participating in the multiperil program. The producers that have chosen to consistently insure their acreage, have been largely responsible for developing and maintaining an actuarially sound insurance program, through good crop management, integrity, and an intolerance of program abuse. As a result the premium cost for Madison County cotton is well below the average county in the southeast.

It is with the aforementioned background that I would like to offer my views on the Crop Insurance Reform to the Subcommittee on Risk Management and Specialty Crops.

The reform measure as it has been implemented, has presented a challenge to the industry to service the business in a professional and timely manner. Given the somewhat short interval between receiving the final details of the program and the revised sales closing date, I think that the industry has responded quite well.

The Crop Insurance Reform has had a positive impact upon the farmers in my area for numerous reasons:

- The premiums have been reduced by an average of 8-12%, due to the reinvestment of adhoc disaster funds into the crop insurance program.
- The program now provides disaster relief type coverage based upon an individual's actual yields (using the APH data), rather than an obsolete program payment yield trigger mechanism.
- The new mandatory provision of the program has provided the incentive for many producers to consider the acquisition of "buy-up" coverage, where in the past many producers haven't even reviewed their coverage options.
- The crop insurance program now requires that the private insurance companies and the CFSA work cooperatively in the processing of the insured's acreage, yield, and entity data, which help to protect the integrity of the program through more accurate loss adjustment and APH data base information.

There are however, certain areas of the Crop Insurance Reform that need to be addressed by your Subcommittee, as you consider possible measures that will fine tune the current law. I have listed a few of the concerns as expressed to me by several of the policy holders who have participated in the crop insurance program for several years. The areas of concern are listed in order of priority:

- The producers who are implementing a crop insurance program on their farm for the first time are allowed to use an APH data base which utilizes yield data from 4-10 years. The majority of these "new insureds" are selecting a 4 year APH base which will allow them to take advantage of their optimum yield simple average base period. While this concept is attractive to the "new insured", the farmer who has remained in the crop insurance program (some for over 20 years) are required to utilize the full 10 years of data in their APH data base. Therefore, the yield guarantee of the "new insured" producer is often significantly higher than the "renewal" policy holder, since adverse weather conditions during the period from 1985- 1990 resulted somewhat below average yields. There is clearly an inequitable application of the program, which discriminates against the producers who have kept the cotton (crop insurance) program actuarially sound for Madison County and North Alabama. I urge the members of the subcommittee to allow all farmers to revert back to a discretionary base period (from 4-10 years), so all farmers will have the benefit of their optimum yield simple average base period, as we begin the first year of the new crop insurance law.
- As referred to earlier, the program payment yields are somewhat obsolete, since they were frozen at 1985 levels. I understand that budget considerations prevent these yields from being updated for deficiency payment purposes, but for crop insurance purposes the program payment yields should be abandoned as an instrument used in establishing initial APH yields on farms where a producer has no actual production history. These payment yields are currently being used to calculate the T-yield, which is used to establish a crop insurance APH base, and more often than not, resulting in an extremely poor guarantee. A more desirable (and actuarially sound) way to incorporate a new farm into a producer's crop insurance plan, would be to use area or county yield data as generated by the National Association of Agricultural Statistics. These yields would more equitably represent the yield potential of a producer, and therefore allow the producer to have a somewhat viable alternative to the current T-yield calculation method. If we expect the current crop insurance plan to be a true alternative to adhoc disaster, and if we want to encourage participation, we must offer a product that provides reasonable coverage under this scenario. The only reason that a farmer should be limited in guarantee, should be after their actual production history reflects their inability to produce the insured crop. We will never convince the farmer that the new crop insurance program is credible, until we stop penalizing them for yields that someone else produced from 1975-1984(current payment yield base years).
- Crop rotation has been a proven practice for over 100 years, therefore many farmers have combined their total operation into one Farm Serial Number (FSN), which

enables them to have the flexibility to plant different base crops on different farms as part of a planned rotation program. As a part of the new crop insurance law, a producer can no longer obtain insurable units by identifiable section (for example Township 2S Range 3E Section 14). Under the current program, beginning in 1995, each FSN is an insurable unit (unless divided by share or practice). Therefore, if a producer is in a rotation plan under one FSN, then his risk exposure is substantially increased, due to the fact that a loss on one tract may be offset by a normal crop on another tract which could be several miles away. We must have some flexibility to allow a FSN to be subdivided into smaller units, so that the farmer may obtain adequate risk protection.

I appreciate the opportunity to submit these comments for your consideration, and I commend the subcommittee for your work on behalf of the agricultural industry.

Respectfully Submitted,

Steven G. Tate

Steven G. Tate

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